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China Report

ECONOMIC AFFAIRS

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CHINA REPORT
ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

YAO YILIN ON TECHNICAL ENTERPRISES' PROGRESS

OW010059 Beijing XINHUA Domestic Service in Chinese 1135 GMT 30 Nov 86

[By reporter Yang Like]

[Text] Beijing, 30 November (XINHUA)--At the Fourth National Work Conference on Enterprises' Technical Progress which closed on 30 November, Vice Premier Yao Yilin pointed out: In the work of technical transformation of enterprises, top priority must be given to enterprises producing export products or import substitutes.

The 7-day Fourth National Work Conference on Enterprises' Technical Progress summed up and exchanged experience acquired from the past few years' work on technical progress. After discussion and study, it laid down a series of policy measures to further improve technical progress, particularly that promoting assimilation of introduced techniques. It also drew up plans for next year's work, and commanded a group of advanced units which have scored marked success in technical progress.

Yao Yilin said: For the development of the national economy, it is necessary to accelerate existing enterprises' technical progress. However, in view of our country's financial power, and credit and foreign exchange status, we must work to our capacity. In his talk, Yao Yilin affirmed the achievement in technical transformation, technical development and assimilation of introduced techniques in the past few years. He held that the works of technical progress in the previous stage were over-extended and beyond the limit of our abilities. We must concentrate our efforts on key projects. Of the unfinished projects, those which can yield comparatively better economic results should, of course, be continued until completion, put into operation and be made to yield projected output as soon as possible. We must concentrate on important new projects.

Yao Yilin said that, currently, quite a number of large and medium-sized enterprises are indeed burdened with heavier taxes and are hardly able to carry out technical transformation without a tax reduction and more profit retention. Therefore, the State Council has decided to grant regulatory tax exemption or reduction and a higher depreciation rate to some enterprises to support their technical transformation.

Lastly, Yao Yilin said: It is our common task to promote technical progress and enhance economic efficiency. The economic commissions, financial departments, and banks must take coordinated action to have this task completed satisfactorily. Bob Yibo, vice chairman of the Central Advisory Commission, also attended and addressed the conference.

NATIONAL POLICY AND ISSUES

OFFICIAL COMMENTS ON ECONOMIC PERFORMANCE

OW250425 Beijing XINHUA Domestic Service in Chinese 1503 GMT 20 Nov 86

[Excerpts] Beijing, 20 November (XINHUA)--China's industrial production has been growing steadily since the beginning of this year, but some important targets of economic efficiency are lower than last year. In dealing with this situation, Zhu Rongji, vice minister of the State Economic Commission, held that it is necessary to study it carefully in order to further boost industrial production by developing the positive factors and eliminating the negative.

In talking to reporters today, Zhu Rongji said: Statistics shows that the economic efficiency of China's industrial production in the first 10 months of this year was not ideal. The main reasons are as follows: The amount of profit and tax realized by, or delivered to, the state by budgeted state-owned industrial enterprises declined by 1.4 percent compared with the same period last year; also compared with the same period last year, state revenues decreased by 2.7 percent, the cost of comparable products rose by 5.5 percent, the turn-over period for fixed working funds was lengthened, and the amount of funds used for turning out finished products rose to 25.4 percent. Nevertheless, in some respects, economic efficiency in the first 10 months of this year was better than last year. In the first half of this year, energy consumption per 100 million yuan in output value for the country's industry dropped by 2.4 percent from the corresponding period last year.

Zhu Rongji stressed: It is commendable that there have been no major ups and downs in China's industrial development this year. We should now pay attention to increasing the output of readily marketable products, raising quality, lowering energy consumption, strengthening production safety and equipment repairs, and making necessary preparations for next year's production. These are the few important steps we should take in organizing current production aimed at raising economic efficiency.

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CSO: 4006/164

NATIONAL POLICY AND ISSUES

MA HONG ON TRANSFORMATION OF OLD ENTERPRISES

HK040755 Beijing RENMIN RIBAO in Chinese 30 Nov 86 p 1

[Report: "Ma Hong Writes to a Leading Comrade of the State Council, Offering Proposals for Accelerating the Renewal and Transformation of Old Enterprises"--first paragraph in RENMIN RIBAO "Editor's note"]

[Text] [Begin "editor's note"] Our country now has more than 7,500 large and medium-sized state-operated enterprises, including more than 5,500 old enterprises built from the 1950s to the 1960s. The old enterprises account for about 70 percent of the total of large and medium-sized enterprises. Although there have been many talks for many years on conducting technological transformations for these old enterprises, no fundamental changes have ever been made for the enterprises. Where does the problem lie? What kinds of appropriate policies and measures should be adopted? The issues raised by Comrade Ma Hong in his letter merit attention. [end editor's note]

The Economic, Technological and Social Development Research Center under the State Council recently investigated the technological conditions of the key projects built in Harbin during the period of the first 5-year plan and offered some policy proposals regarding the technological transformations of old enterprises. While reporting to the [party] Central Committee and the State Council on the findings of the investigation, Ma Hong, director general of the research center, wrote to a leading comrade of the State Council.

The letter said: "The work of carrying out renewal of equipment and technological transformations in old enterprises is a task which brooks no delay. Although this issue has become a platitude, it is truly a strategic issue, which exerts a far-reaching influence and which remains to be settled once and for all."

The letter said: "Now the whole party focuses its attention on the reform of the structure. This is completely correct. However, the aim of the reform is nothing but development. Therefore, while carrying out the reform, we should pay special attention to firmly grasping the renewal and transformation of old enterprises. Although our old enterprises are key enterprises of our country's industrial system and are the major creators of financial revenues and also undertake the major tasks listed in command plans, they are already 'senile.' If we do not carry out 'blood transfusions' for our old enterprises

so as to restore the function of their 'blood-forming' organs, the enterprises will decline further and become more dilapidated during the later period of the Seventh 5-Year Plan. At present, some big coastal cities and old industrial bases cannot realize any growth of industrial production. True, there are many reasons for this, but a very important reason is that their equipment and installations are obsolete and that their technologies are backward. If this state of affairs remains unchanged, we shall not be able to maintain the posture of a continued and steady development of industrial production during the period of the Seventh 5-Year Plan; there will be hardly any hope of having reserve strength for the 10 years after the period of the 7th 5-Year Plan; a relaxed economic environment essential to the reform of the structure can hardly be created; the reform itself will be forced to waver and will hardly be able to develop in depth; and the realization of the magnificent strategic goal put forward at the 12th party congress will be beset with serious difficulties."

The letter said: "Of course, technological transformations cannot unfold fully. The transformations and readjustment of industrial structures should synchronize and coordinate with each other and should also supplement each other. Therefore, we must draw up an overall plan and carry out work in order of importance and urgency. At present, we must give priority to the light and textile industries in old coastal industrial bases that can gain more foreign exchange earnings. From a long-term point of view, to conscientiously carry out technological transformations, we must have an advanced machine-building industry. Of course, the machine-building industry's technological transformations cannot blossom in an all-round way. Factories which are engaged in the production of goods that are in full or excessive supply and factories which manufacture machines of very poor quality must be eliminated and be converted to the manufacture of other products. We should put the stress on transforming those key enterprises that use new technologies to equip major national economic sectors so as to accelerate our country's modernization. At the same time, we should use the financial resources created through technological innovations to support the technological transformations, use the experience of selected units to promote work in the entire area, and take the road of promoting new transformations on the basis of previous transformations.

The letter stressed: "The remaining 4 years of the period of the Seventh 5-Year Plan are fleeting. If we were forced by reality during the 10 years after the period of the Seventh 5-Year Plan to backtrack and to sincerely determine on settling the issue once and for all, it would be too late. The remaining 4 years of the period of the Seventh 5-Year Plan are the crucial period. The whole nation, from the leadership to the masses, should approach this issue from a fairly high plane, make fundamental changes in concepts, policies, systems, and measures, and do well in fulfilling this strategic task."

Leaders of the Central Committee have attached importance to Ma Hong's letter and have asked the relevant departments to map out plans for classifying the technological transformations of key enterprises among the large and medium-sized enterprises and to propose policies and measures that should be adopted."

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LECTURE ON KEYNES' ECONOMIC THEORIES HELD IN BEIJING

HK191131 Beijing JINGJI CANKAO in Chinese 13 Nov 86 p 6

[Article by reporter Zhang Jian (1728 0256): "China's Economic Theories Should Extensively Draw on Experience from Abroad--Li Yining on 'The General Theory of Employment, Interest and Money' by J.M. Keynes"]

[Text] Beijing University recently sponsored a special public lecture to mark the 55th anniversary of the publishing of "The General Theory of Employment, Interest and Money" ("The General Theory" for short), a representative work of the renowned British economist John Maynard Keynes.

At the meeting, Professor Li Yining gave an academic report entitled "Keynes's Economics and China," noting that a scientific, impartial, and objective study and appraisal of Keynes's theory will visibly benefit the development of our economic theories and policy-making.

The nature and Role of "Keynes Revolution"

Li Yining said: Keynes's economics is the result of the struggle between two major ideological trends of Western economics--laissez faire and government intervention. At the time, the ideological trend of government intervention was noticeable, and some governments even adopted the method of government intervention policy, such as in the reform known as the New Deal introduced by U.S. President Roosevelt. As a result, Keynesianism, which embodied the ideological trend, emerged to meet the needs of economic development in capitalist countries. Keynes's economics criticized Western conventional economics. It did not supersede conventional economics but negated some of its viewpoints, particularly its analysis of macroeconomics. However, it accepted its analysis of microeconomics as a prerequisite.

Had there been no Keynes's theory, would the postwar economy of Western countries have grown as fast? This is the key to the question of how to evaluate Keynesianism. Prof Li Yining said: If there had been no Keynesianism, the postwar economy of Western countries could still have developed rapidly. This is because there were some internal factors that promoted capitalist development after World War II, such as big increases in fixed capital, technological progress, quick awakening and increase of demand, which had been dwarfed due to the war, a rebuilding of urban areas, and local wars in many parts of the world. Government policies and measures to promote economic growth served only an auxiliary means.

Li Yining believed that the contribution of Keynes's economics to the postwar economy of Western countries was the prevention or relaxation of depression. So far there has been no great depression like the one from 1929 to 1933. This is because Keynes's economics provided countermeasures to avoid grave economic crises and temporarily reconcile economic contradictions. Of course, this cannot eradicate the factors which contribute to economic crisis but it does make the production cycle of capitalist countries more complex.

Keynes's Theory and Developing Socialist Countries

Li Yining said: In applying Keynes's economics in developing socialist countries, there are three kinds of limitations.

First, Keynes's theory is based on the capitalist economy, and the economy of the socialist society is based on the public ownership system. Therefore, there are many differences in investment consumption, and savings.

Second, Keynes's theory has one aim that is, to seek economic stability and growth; in socialist society, however, development of the economy and society should be well coordinated.

Third, socialist countries should neither use capitalist values nor completely maintain the conventional values of the East. They should have a new conception of values which agrees with socialist moral principles, and this is different from the analysis basis of Keynes's theory.

Li Yining also said: In spite of differences in analysis bases and circumstances, many aspects of Keynesianism can still be used for reference by developing socialist countries, such as his analysis of economic operation; his analysis of "encouraging investment with investment and increasing employment with employment;" and his viewpoints that excessive demand leads to monetary inflation and that reduction in wages cannot prevent unemployment.

Our Enlightenment From the Development of Keynes's Economics

Professor Li Yining said: The founding, improvement and development of Keynes's economics give a good deal of enlightenment to the development of our economic theories.

He said: First, a new economic theory is always regarded as a heterodoxy at the outset, and the "general theory" is no exception. It was continually sneered at and attacked by authoritative persons and defenders of orthodox ideas, and was supported and praised by young people who were dissatisfied with orthodox ideas. Therefore, those who have the courage to blaze new trails and seek solutions to new problems should be provided with a climate for their existence and development.

Second, new economic theories should first be understood, accepted, and applied by government policymakers before they become guidelines for policies. The spread and application of "the general theory" have widened our experience in this respect.

Third, new theories must be progressively enriched and developed by the late-comers. As a matter of fact, "the general theory" should be taken only as a starting point for the development of the school of thought named after Keynes. His students and supporters replenished it with things he had left out or ignored and developed his basic thesis and analysis methods by putting forth a series of new viewpoints. Thus, a fairly complete theoretical system has been formed.

Fourth, a new theory should not be regarded as the acme of perfection; the cornerstone of a school of economics is not unassailable. However, it must approach problems from a new high plane and provide a new theoretical framework. The "general theory" is a theoretical work of this kind.

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ECONOMIST ON PRICE OF PRODUCTION MATERIALS

HK280751 Shanghai SHIJIE JINGJI DAOBAO in Chinese 10 Nov 86 p 3

[Article by Xue Muqiao (5641 2550 2890): "Comment on the Prices of Production Materials"]

[Text] The key to success in the price reform concerning production materials lies in maintaining a balance between supply and demand of such materials. Because the scale of capital construction was uncontrolled for many years, the supply of production materials became very strained and could not be distributed in a planned way in a certain scope. As a result, there are great differences between the official prices and the market prices of the materials. Most of production materials, or capital goods, are used in capital construction or in the building of equipment. So I think that the state's effective control of the scale of capital construction or in the building of equipment. So I think that the state's effective control of the scale of capital construction is the crucial link, which will gradually ease up the tense situation in material supply and will then bring about a balance between the supply and demand of production materials. Once a balance is reached, the market prices will fall. This is a basic condition for the smooth development of price reforms concerning production materials. The resolution adopted by the 3d Plenary Session of the 12th CPC Central Committee said that the reform of the unreasonable price system is the key to the success in all-round reforms. I would like to add a point here. That is, the strict control over social total demand (including the accumulation funds and the consumption funds) and guaranteeing the balance between total supply and total demand are the key link in the reform of the unreasonable price system and in the successful readjustment of economic relations in all fields.

At present, many powers in the field of capital construction have been delegated to local or departmental authorities, and the central planning authorities can not play little role in regulating capital construction. As various localities are all anxious to double and redouble their production, their actions tend to be too reckless and have given rise to a phenomenon of duplicated construction. Investment outside state budgets often goes beyond the limits of plans, and this problem is more prominent at the lower levels. This tendency must be checked. If we can control this year's scale of capital construction to last year's level and properly regulate the investment structure, then the steel prices are very likely to fall next year. In addition, we must also control

money supply. The Central Bank has not properly played its role in this regard. Money supply is the basis of all financial means, and we must properly control this basis.

The fundamental method of overcoming the short supply of production materials is to control the scale of capital construction. At present, we can also take expedient measures. That is, we should quickly open a market for exchanging production materials. At present, we have rather brisk markets for consumer goods, but our markets for exchanging production materials are not well developed, because production materials were subject to centralized distribution for a long time. In particular, steel products of all specifications are in short supply and their prices remain at a rather high level on the markets; on the other hand, steel products kept in stock increased every year--from 18 million tons in 1983 to 27 million tons at present, and will continue to increase. A reason for this contradiction was the fact that many enterprises rushed to buy whatever steel products they could buy but they could not sell those which were not suited to their requirements. Over the past year, some cities have established markets for exchanging production materials, and many enterprises have sold their surplus steel products on these markets. The price of steel cord has fallen from 1,900 yuan to 1,600 yuan. The increase in steel products stockpiled by enterprises reflects the fact that our markets for these materials are not sound enough. If enterprises can promptly buy the steel products they need from the market, they will not need to keep such large quantities of steel products in stock. (In Japan, the average stocking period of steel materials is 1 month, but that in our country is more than 6 months). If we expand the markets for exchanges of steel products, millions of tons of steel products will be brought into market exchanges, and there will be a further fall in the market price of steel.

Another reason for the sharp increase in steel products kept in stock is the upward trend of steel prices on the markets, and people like to stock steel in an attempt to resell it at a higher price. If the scale of capital construction is properly controlled and our markets are well developed, then steel cord's market price may fall further to 1,200 yuan or below. Then many enterprises will send their surplus steel products in stock to the markets, and the market price will fall again. This will enable us to smoothly carry out price reforms concerning production materials and to achieve better results than expected. Anyway, we should rely on two basic methods: First, strictly control the scale of capital construction; and second, rapidly expand the market for production materials.

The expansion of commodity production must be supported by a corresponding growth in the role of markets. Not only must the commodity markets be further expanded, but the role of the money market must also be brought into better play. At present, we have put too much currency into circulation; but enterprises are still facing a shortage of funds. A reason for this is the backward condition of our financial business. A large amount of money is now hoarded by people, especially by peasants, in their private money boxes. At the same time, the functions of our banks in financing enterprises are even weaker than those before liberation. In those times, banks exchanged bills through a clearing house and they debited and credited each other's accounts instead

of paying cash to settle accounts; in addition, banks could also discount bills so as to meet the short-term financial needs. Now, as the functions of our banking institutions are weak, localities and enterprises should be allowed to raise their funds to overcome their financial difficulties. The fundamental solution, however, should be to improve the functions of the banks, which form the main channel for money movements. If the main channel is clogged and some side channels work, the money market will become chaotic. The banks have made great efforts to change the situation, but their functions obviously still cannot meet the requirements of the developing economic situation.

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NATIONAL POLICY AND ISSUES

GUANGMING RIBAO ON ADVANTAGES OF JOINT-STOCK ECONOMY

HK021400 Beijing GUANGMING RIBAO in Chinese 22 Nov 86 p 3

[Article by Deng Bing (6772 0393) and Yang Aiqun (2799 1947 5028): "An Elementary Talk on the Joint-Stock Economy"]

[Text] Marx' study of the capitalist joint-stock economy was based on the contradiction between the limited character of private capitalist accumulation and the unlimited character of socialized modern production and its demand for capital. The joint-stock system promoted the transition of private capital to social capital, and this mitigated the above-mentioned contradiction to a certain degree and made economic progress possible. In fact, the joint-stock system may also provide an organizational form for modern production under a socialist commodity economy.

At present, the joint-stock economy in our country remains in a spontaneous stage, but it cannot be denied that its emergence and development are inevitable. First, the substantial development of the commodity economy in our country has created an objective condition for the emergence of the joint-stock economy. Second, the expansion of enterprises' decisionmaking power will gradually turn the enterprises into some relatively independent economic entities, and this not only makes it possible to develop the joint-stock economy but also ensures that the enterprises can have means of raising funds and have the power to use their own funds in the course of developing the joint-stock economy. Third, the reform of the monetary system and the decontrol in the credit-offering business have also created a favorable condition for the emergence and development of the joint-stock economy. Under the capitalist system, although the joint-stock economy directly turns private capital into social capital, it does not change the private ownership of the means of production. In socialist society based on public ownership, the essence of public ownership eliminates the separation of producers from the means of production and thus eliminates exploitation. In other words, the essence of public ownership is the direct combination of producers with the means of production. So the socialist joint-stock system realizes this direct combination through the integration of "shareholders" and "producers." Under the socialist joint-stock system, producers are at the same time shareholders, so they will not merely pursue consumption or merely pursue accumulation. When workers are at the same time shareholders, if they merely pursue consumption, this will result in the reduction in accumulation which may then weaken the enterprise's capacity of expanding reproduction and place the

enterprise in an unfavorable position in the business competition and directly affect its long-term interests; on the contrary, if they merely pursue accumulation, this will directly affect their present livelihood. In this sense, the socialist joint-stock system is a specific form of socialist public ownership by integrating producers with shareholders.

The emergence of development of the joint-stock economy is playing a positive role. It helps people better understand the inevitability and necessity of separating the management power of the socialist enterprises from their ownership. The joint-stock economy directly results in the overlapping of various forms and levels of socialist public ownership. In the course of subscribing shares and pooling funds, the economic elements under all-people ownership, collective ownership, and individual ownership are interwoven into some organic economic entities--the joint-stock enterprises. In the joint-stock economy, workers can better hold the master position in their enterprises. In a joint-stock enterprise, the funds, permanent and productive assets, technology, and labor are turned into shares which may be bought and held by people. Thus, the shareholders also have responsibility, rights and benefit. This will more properly integrate the interests of the state, the enterprise, and the individual workers. People who hold shares in an enterprise will pay very close attention to an up and down of the enterprise's business performance, and this will fully arouse workers' enthusiasm, initiative, and creativity. The joint-stock economy will also help break the departmental and local economic barriers and help separate enterprises from government institutions. In the joint-stock economy, enterprises perform their duties according to law, and the state guide and control these enterprises in the macroeconomic field through various economic levers.

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CSO: 4006/164

NATIONAL POLICY AND ISSUES

RENMIN RIBAO ON REGIONAL ECONOMIC DEVELOPMENT

HK240821 Beijing RENMIN RIBAO in Chinese 17 Nov 86 p 5

[Article by Li Zhisheng (2621 2535 4141): "Seriously Do a Good Job of Planning Regional Economic Development"]

[Text] We Must Attach Great Importance to Planning Regional Economic Development

The economic region is an inevitable outcome of the development of mass production. It is neither an artificial administrative region nor a combination of regions related to nature. A scientific and rational plan on regional economy should follow the law governing the development of economy, nature, science, and technology. Its fundamental task is to make the most of natural resources and create wealth for society. To draft a scientific regional economic plan is an essential prerequisite for the national economy to embark on the path of vigorous development and to increase efficiency.

A review of the world's economy shows that the economically developed countries have attached great importance to the work of regional economic planning. During the 1930's, the United States drafted a plan for developing the Tennessee River Valley. With this plan, the United States has, through several decades of effort, turned the river valley into an important industry-agriculture-tourist base. The remarkable postwar successes scored in Italy's southern region under the guidance of its development plan is also a typical example. Beginning from the 1920's, the Soviet Union drafted and constantly revised its plan on regional economy and made headway in developing Siberia and the far east. Japan adopted the strategy of "developing the country with technology" and sought a high level of regional technological skill to promote the development of its regional economy.

At the present stage, the question of China's regional economy is not merely a question of economic construction. It is also related to structural reform. Unlike the regional division of labor that spontaneously took shape under the market mechanism of the Western countries and the regional production combines practiced by the Soviet Union for nearly half a century, the purpose of planning the regional economic development is to lay the foundation for the state to gradually exercise decentralized management of the macroeconomy. For a long time in the past, the method of administrative division was adopted to exercise

management over the economy which artificially separated economy from technology, cut apart the unified domestic market, and failed to make rational use of the natural resources and technology. Consequently, the concept and management method of small-scale production hampered the development of the socialist commodity economy. Through vigorously developing the circulation of commodities that transcend regions and departments, the socialist commodity economy should expand the market for commodities and means of production and establish markets for funds, technology, and labor so as to make the most of the social resources of the economic region, create a fine external economic environment that can produce both motivity and pressure for the economic region, and further develop the social productive forces. By developing the work of regional planning, we can shift the focus of the state's planning system from setting quotas, approving projects, allocating funds, and distributing materials and goods as in the past to conducting overall plans, having a good grasp of policies, organizing coordination, offering services, and using economic means to enhance regulation, inspection, and supervision.

The planning of regional economic development is an essential link in making overall arrangement for national economic construction. The blueprint for the overall distribution of China's national economic construction can be summed up into regional economic planning with an economic region as a basic unit. However, it refers to the coordination of the regional economic plans rather than simply piling them up one after another. Regional economic planning is a type of social systems engineering. The national economic system is an organic whole composed of the economy of various regions. A lack of coordination in any part of the system may decrease the economic efficiency of the whole. A review of the investment made in construction since the founding of the PRC indicates that less than two-thirds of the investments have yielded practical results. This was due to the irrational distribution. For example, we set up energy consuming industrial enterprises in the areas where there was a shortage of energy, established factories handling a large freight volume in mountain areas where transport was inconvenient, and moved factories that needed large amounts of water to areas which had water shortages.

Based on China's National Conditions, Scientifically Draft a Plan for Regional Economic Development

In recent years, we have summed up the positive and negative experience of economic construction in the past, used the theory and method regarding regional economic development of other countries for reference, conducted a great deal of work for the development of regional economic planning, and explored some new methods.

First, to do a good job of regional economic planning, it is necessary to define the development strategy of the regional economy. The development strategy of regional economy refers to the best measures for social, economic, scientific, and technological development adopted by a region in light of its existing circumstances. Which is the correct development strategy for regional economy? We hold that it should meet the needs of the all-round development of the national economy and be perfectly combined with the development strategy of the nation's economy. It should develop its strong points, conform to the trend and characteristics of modern economic development, remove the barriers erected between regions and departments, and with the support of key cities, make the most of the economic network.

Second, the drafting of the development plan should be carried out under the guidance of the development strategy of the regional economy. First, it is necessary to conduct a survey of social and natural resources, work out an overall plan based on a rational distribution of productive forces, and provide a basis for regional economic development. We must have a good idea of the land and natural resources of the economic region and know what can be exploited and utilized and what should be exploited and utilized on a priority basis so as to yield the best economic results. Moreover, it is necessary to combine the rational exploitation and utilization of natural resources with the conservation of natural resources and improvement of environment so as to achieve the best social, ecological, and environmental results. Second, make a study of economic policies and measures. Regarding an economic region which is an energy base, it is the country's energy supply base as well as a first-level economic region. To accelerate its development and construction, it is necessary to formulate a set of corresponding economic policies. For example, the policy of the state repairing highways, the masses running mines, and various sectors becoming shareholders can be implemented and the rich coal resources of the state can be combined with the large contingent of labor force. Take another example, users of coal power within the base and the returning empty trains that transport iron ore may enjoy low prices. The state should give the localities and departments preferential treatment in running mines and power stations and in building highways. The provinces and regions concerned should give way to the bases so that the latter can rapidly promote the development of productive forces and attract the attention of both the domestic areas and foreign countries.

While planning the development of economic regions, it is also necessary to make a study of structural reform. To sketch the best blueprint for the development of regional economy and build the economic region into a powerful economic organ, it is necessary to reform the market, production, industrial, management, and social structures. This makes the planning work more complicated. It requires us to conduct a series of investigations and studies in light of the circumstances of the existing structure, propose reform schemes, and predict the economic impact produced by reform.

Third, the planning for the development of economic regions is the development of economic-social-scientific integration. A slight move in one part may affect the situation as a whole. For this reason, while putting a plan into practice, it is necessary to make selected experiments to test its feasibility.

It is an extremely arduous task to do a good job of planning the regional economic development. It is a new emerging thing in China and we do not yet have set examples to follow. Based on our national conditions, we should make great efforts and conduct pioneering, creative, and explorative work.

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CSO: 4006/166

PROVINCIAL AFFAIRS

NEW INDEPENDENT ENTERPRISES DEVELOPED IN ANHUI

OW251354 Beijing XINHUA in English 0645 GMT 25 Nov 86

[Text] Hefei, 25 November (XINHUA)--Anqing, a medium-sized city in western Anhui Province, has raised private funds to build about 600 enterprises, which are considered entirely different from state-owned enterprises, according to today's ANHUI DAILY.

These enterprises are described as enjoying the greatest decisionmaking power and as being the most vigorous economic entities in the country by more than 70 economic experts at a provincial meeting on the development of new-type collectively owned enterprises, which closed here last Saturday.

The enterprises were set up on the principle of self-control in investment, employment, management profit and loss, selection of factory directors and wage promotion, which used to be under the complete control of both the central and local governments, a participant said.

"In these enterprises, workers are both employees and employers, which is a feature of the achievements of China's urban economic reform," said Su Hua, vice-chairman of the provincial People's Congress Standing Committee.

Anqing, a city with a population of 400,000, has established 596 such collectively owned enterprises. Their industrial output last year was 7.5 times the 1979 figure. Their commodity sales in 1985 accounted for 45 percent of the city's total annual sales, according to local statistics.

Some enterprises have developed into transregional and multi-profession complexes. For instance, the supply and marketing company, formed in May 1983, has built 5 plants, 17 department stores, two joint ventures and 14 branches and offices in other parts of the country including Beijing, Tianjin, Guangzhou's Shenzhen Special Economic Zone and Hong Kong.

The enterprises attributed their rapid development to the energetic support and flexible policies taken by the local government which only drafted some guiding principles for the enterprises and tried to solve their problems instead to interfere into their management. [sentence as received] The local financial, industrial and commercial departments have provided loans and reduced taxations if some run into financial difficulties. "We plan to apply the method of indirect control of enterprise management to state-run enterprises in order to change the present management system," said Xie Yongkang, mayor of the city.

PROVINCIAL AFFAIRS

CHONGQING PRACTICES ASSET MANAGEMENT SYSTEM

OW190844 Beijing XINHUA in English 0658 GMT 19 Nov 86

[Text] Beijing, 19 November (XINHUA)--Chongqing, the biggest industrial and business city in southwest China, has taken a new step in urban economic reform in a bid to improve its commodity production, CHINA DAILY reported today.

The new development--called the asset management responsibility system--will bring major changes to the country's state-owned enterprises if the experiment in Chongqing is successful.

Sun Tongchuan, vice-mayor of Chongqing, said that the purpose of the new reform was to "revitalize enterprises by giving them more freedom and by separating management from ownership," according to the paper.

The system now being tested in 20 enterprises has a vastly expanded role for factory directors, who will be selected as a result of a tendering process.

Company relationship to the state will also be redefined and new ways will be found to measure the worth of an enterprise.

First, Sun said, an objective assessment of a factory's assets, both tangible and intangible, will be made and a prediction of profits will be provided by those people bidding to be its director, the paper said.

Secondly, the state finance rules will be operated differently so that the state collects not only a corporate income tax but also a fee payable for the use of the assets provided to the director, the paper said.

Secondly, the state finance rules will be operated differently so that the state collects not only a corporate income tax but also a fee payable for the use of the assets provided to the director, the paper said.

In addition, debt service payments will now be deducted from post-tax profits so as to encourage greater responsibility on the part of the enterprise.

Thirdly, the director must give a personal stake in the company and take full responsibility for it. The winner in the bidding for the chance to run an

enterprise would have to provide a personal bond of 1,500 yuan a month. Only one person can hold the director's responsibilities although he may bring a team of managers in with him.

Through a series of contracts, legally approved, he would be given full control of planning, management, and the employment, dismissal and pay of workers.

Sun Shoumin, vice-director of the city's optical instrument factory, 1 of the 20 enterprises involved in the experiment, said the director would be rewarded if he met his profit predictions and boosted the firm's capital assets.

If he hit his targets, his salary would be doubled. If assets increase by 1 percent, his pay would go up by 5 percent.

But if combined profits and assets fell by between 1 and 10 percent in 1 year, he would get his salary cut by 30 percent the following year. If losses were over 10 percent, he would lose his job, according to the paper.

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CSO: 4006/64

PROVINCIAL AFFAIRS

GANSU DEPUTY SECRETARY ON COMMODITY PRODUCTION, REFORM

HK021032 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 1 Dec 86

[Excerpts] Developing commodity production focusing on reform and opening up and updating people's ideas is an important task for enterprises in building spiritual civilization. This is put forth by Hou Zongbin, deputy secretary of the provincial party committee, at the first annual meeting of the provincial symposium on ideological and political work among staff and workers which opened today.

Over the past few years, enterprises in the province have adhered to the principle of grasping two civilizations simultaneously and have done a lot of work, achieving some results. However, along with the in-depth development of the reforms and the continuous and steady development of socialist economic construction, higher demands have been raised. In view of this, Hou Zongbin pointed out that it is important in building spiritual civilization for industrial, communications, financial, and commercial units to establish 10 ideas in the course of developing commodity production focusing on reforms and opening up. The 10 ideas are as follows: The idea of socialist economy meaning a planned commodity economy; the idea of catering to the outside and the world, opening up and lateral ties; the idea of blazing new trails and constantly making progress; the idea of paying attention to material interest; the idea of exploiting human resources; the idea of education; the idea of competition; the idea of [words indistinct]; the idea of national politics; and the idea of delegating powers and providing service.

The annual meeting was held by the economic work department of the provincial party committee. The participants will sum up and exchange experiences in strengthening ideological and political work among staffs and workers and in conducting research.

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CSO: 4006/172

PROVINCIAL AFFAIRS

HUBEI RADIO URGES IMPROVING ECONOMIC WORK

HK300147 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 29 Nov 86

[Station Commentary: "Expose Contradictions, Find out the Discrepancies, and Do a Thoroughly Good Job in Promoting Economic Work"]

[Excerpts] Hubei has scored marked achievements in economic construction and all undertakings in recent years. It is estimated that the first doubling of total industrial and agricultural output value can be achieved.

However, victory in the first battle is not final victory. We must realize that our achievements lag far behind the demands of the central authorities on the province and behind developments in advanced areas. They are also far from commensurate with our own favorable geographical location, resources, and economic strength. What should we do in the future? In particular, how should we set about the second doubling? These are indeed questions we must seriously ponder and deal with.

At the sixth enlarged plenary session of the fourth Hubei Provincial CPC Committee, the leaders of the provincial party committee and everyone else exposed the contradictions and found out the discrepancies, with the result that the participants gained a full picture of the problems in the province's economic work. For instance, agriculture's ability to resist natural disasters is not strong, and its foundation is weak. The quality of the industrial enterprises is not high, their adaptability is poor, and their economic results not good. In particular, in the wake of the switch of the focus of state investment to the southeast, Hubei's difficulties in self-reliantly developing its economy have become relatively great due to its limited financial situation.

Judging by these problems, we are facing a serious situation. We must therefore keep clear heads, squarely face those contradictions and discrepancies, and adopt prompt countermeasures so as to gain the initiative in economic work.

If it is acknowledged that the discrepancies between Hubei and advanced areas in economic work have grown greater in recent years, then we must also

acknowledge that the discrepancies in ideological concepts have also grown greater. An important reason why certain comrades are prone to be satisfied with past successes in work is that they are bound up by the mentality of the self-sufficient small peasant economy; they cannot see far, their vision is narrow, and they do not seek to blaze new trails.

For a long time, in our economic work we were accustomed to allocating raw materials according to the plan and purchasing and selling products under a monopoly system, by which production was out of step with the market. We lacked the commodity economy concept and the spirit of competition. Why has the commodity economy in the coastal areas developed a bit faster? Apart from natural conditions and relatively good foundations, a chief factor that cannot be neglected is that people's ideological concepts there have been opened up.

To climb a step higher in Hubei's economy, we naturally need to continue to work hard to improve its foundation conditions; but we need all the more to climb a step higher in renovating ideological concepts. This should be regarded as a major guiding idea for achieving the second doubling. We should carry out effective work to further eliminate the concept of natural economy, the concept of product economy, and various obsolete concepts that hamper reform and opening up. We should gradually cultivate and establish concepts of value, markets, economic results, competition, legal system, talent, and information that match the needs of reform, opening up, and invigoration. We should thus further clear away the ideological obstacles to the development of commodity economy, inject new motive force and vitality, and ensure that the province's economy can develop in a sustained, steady, and coordinated way.

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CSO: 4006/172

PROVINCIAL AFFAIRS

BRIEFS

CHONGQING STOCKHOLDER-OWNED ENTERPRISES--Beijing, 19 November (XINHUA)--The government of Chongqing City, the largest industrial and business city in southwest China, has decided that newly started enterprises should adopt shareholder ownership, the overseas edition of the PEOPLE'S DAILY reported today. Officials of the city in Sichuan Province have worked out administrative regulations on stock investment and already experimented with it. The paper said some limited-liability corporations and groups will soon be set up to develop the city's famous-brand products. They include the China Jialing Motorcycle Industrial Corporation Ltd. and the Sanxia Electric Appliance Group Ltd. Stocks were sold last September to start a state-owned packaging and printing company. Over 100 enterprises in Chongqing, and 5 provinces and 8 cities in other parts of the country bought stocks worth 4 million yuan (1.1 million U.S. dollars) issued by the company. [Text] [Beijing XINHUA in English 1106 GMT 19 Nov 86 OW] /12232

CSO: 4006/64

ECONOMIC DEVELOPMENT ZONES

STEADY PROGRESS IN ZHANJIANG DEVELOPMENT ZONE REPORTED

Guangzhou KAIFANG [OPEN POLICY] in Chinese No 8, 8 Aug 86 pp 26-27

[Article by special correspondent Zhang Sheng [1728 5163]: "The Steadily Developing Zhanjiang Economic and Technological Development Zone"]

[Text] The Zhanjiang Economic and Technological Developments Zone [ETDZ], approved and established at the end of 1984, has a total area of 9.2 sq km and is located between the two older urban districts of Xiashan and Chikan. In accordance with the principle of proceeding according to ability and resources, the zone developed 2.6 sq km first and will complete an additional 2 sq km during the Seventh 5-Year Plan, the zone has taken into account, state financial resources and the actual progress registered in "linking up with the interior and importing from overseas" and on this basis advanced in an orderly, step-by-step fashion, obtaining returns from each area as it is developed. By the end of this June, output value for factories and enterprises already in production was more than 12 million yuan, over \$3 million in foreign exchange was earned via export and fairly good economic returns have been gained.

The Zone Has Basically Completed Initial Infrastructural Construction

After its creation the Zhanjiang ETDZ vigorously began "constructing the five components of infrastructure and ground leveling" and is making a strong effort to develop a good environment for investment at the earliest possible date.

Most of the basic work has been completed on the construction of the new main highway traversing the zone the Renmin Dadao,-including the concrete paving, drainage-pipe laying, roadlight installation, tree planting, etc. Last year 10,000-volt, 3,000-kW high-tension electrical lines were strung along 3,2 km of the Renmin Dadao, and this year another 2.8 km of 10,000-volt lines will be renovated. Work is now being intensified on the Longchao transformer substation.

Work is being conducted at a feverish pitch to lay 300-mm water pipes and to build a water pumping plant, which when completed will increase daily water supply to 5,000 metric tons. As for posts and telecommunications, 100 pairs of telephone lines have been connected and are in use, a programmed telephone exchange has been installed in the zone's management committee office and the next step will be to install "telex machines", "facsimile photo telegram

transmitters" and other modern communications equipment in order to provide convenient communications for domestic and foreign customers.

Two 5-story, 14,400-square meter multifunction factory buildings were completed and put into use in June of this year. And several light industry, textile, garment, electrical appliance food-processing and other processing plants have moved into the plants and begun production.

Gratifying Economic Results Have Been Achieved by the 10 Enterprises Now in Production

The Zhanjiang ETDZ has signed more than 100 contractors and agreements with Chinese and foreign businessmen, of which 32 contracts have been examined and approved. These projects will import foreign capital, produce for export, maximize local advantages in natural resources and increase the amount of foreign exchange earned locally via exporting. In addition, the technologies and equipment involved are fairly advanced, can be digested and absorbed locally, are easy to transfer inland and will be helpful in the renovation of older enterprises.

Total investment in the 10 enterprises completed and put into production last year was 9.6 million yuan, including \$830,000 in foreign capital. After maximum production capacity is reached, annual output value may reach 27 million yuan, annual profits will be 3.5 million yuan and annual foreign-exchange earnings will total \$8 million. Since going into production beginning last year until the end of June of this year, the 10 projects have earned more than \$3 million in foreign exchange from exports.

Since going into production last September, the Seafood Processing Plant of the Guangzhouwan Yuexing Co Ltd alone has processed more than 120 metric tons of prawn, shelled shrimp, crabmeat, cuttlefish and other seafood products, earning more than \$1.4 million in foreign exchange via export. The plant has an annual processing capacity of 500 metric tons and a total investment of HK \$8 million. The Jilun [1838 0178]-brand freezer, well-known internationally for its advanced construction, and other sets of cold storage equipment imported by the plant from the United States can bring down the temperature of seafood products to -50°C in 4 to 6 hours and keep them fresh for 6 months to 1 year. The company has adopted a variety of measures to build its own prawn-raising base and has signed contracts with peasants of neighboring to raise prawn jointly on a total of more than 13,000 mu. The company is also preparing to expand its prawn-raising base. All of these projects have helped promote the development of Zhanjiang's aquatic products industry.

The Focus of Work Has Shifted to Project Construction

A responsible comrade from the management committee of the Zhanjiang ETDZ told this reporter that infrastructural construction in 0.6 sq km of the zone had been basically completed this past June and that the zone is now prepared to build a number of key medium and large-scale projects. From now on, the zones focus of work will shift to project construction.

The responsible comrade then listed the six key projects on which the zone will concentrate its efforts in the immediate and near future: (1) The Dongfang Sisal Hemp Fine Products Factory, which will import equipment from the FRG to utilize the tropical resource sisal hemp to process products entirely for export; (2) the Rubber moulding Machinery Factory, which will import foreign technology and prototypes to produce equipment for the manufacture of high-grade rubber strips and tubing; (3) A particle-board products factory, which will utilize wood from dead rubber trees as a raw material to produce a planned annual total of 280,000 pieces of furniture by crushing the wood, then adding a bonding agent and molding this mixture. (4) an agricultural truck assembly plant, designated as a key project by the Ministry of Machine Building Industry, which will import entire sets of advanced equipment and produce an annual total of 5,000 to 10,000 trucks for use in agriculture; (5) a research center for the development of eucalyptus trees, which project Australia will assist by providing 7 million Australian dollars. This key scientific research project, designated as such by the Ministry of Forestry, will guide China's nine southern provinces in the creation and utilization of eucalyptus forests and will help promote development of eucalyptus resources on the Leizhou Peninsula and of forest and fruit production in western Guangdong; (6) a granite-processing plant, the purpose of which is to develop the rich granite resources of Lianjiang County. The plant will utilize advanced equipment to manufacture for export granite slabs to be used in high-quality construction.

In stressing industry and selecting projects the management committee of the Zhanjiang ETDZ adheres to the principles of "placing equal emphasis on large, medium and small projects, and linking short- and long-term projects." While concentrating most of the zone's forces on getting the six key projects underway, the committee has decided that, while the zone continues to consolidate the 10 small projects that went into operation last year, it should in the near future add a number of small export-processing projects that require little investment and that can be built and yield results rapidly. Under preliminary consideration is the construction of plants to produce down-filled clothing, cotton goods, canned goods, fine mineral products, fired porcelain flowers, handcrafted candles and other projects.

At the conclusion of the interview, the responsible comrade from the zone's management committee told me that, after more than 2 years of hard effort, an excellent start has been made on the development of the Zhanjiang ETDZ. However, he added, work is still only at the preliminary stage and many arduous tasks remain. Nevertheless, the zone's leadership confident and resolved that, guided by the party's policy of opening to the outside world, the zone will do a good job of developing.

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CSO: 4006/51

ECONOMIC PLANNING

BRIEFS

SICHUAN: WANXIAN PREFECTURE'S DEVELOPMENT--A seminar on the economic development of Wanxian Prefecture opened on 4 December. Leaders and experts from 17 central departments, including the State Council's Three Gorges Area Economic Development Office, and 15 provincial departments were invited to attend and to guide and take part in discussing the prefecture's economic development problems. Wanxian Prefecture is rich in surface and underground resources. In April this year, when inspecting the prefecture, central leaders including Zhao Ziyang, Li Peng, and Wang Renzhong called on it to take full advantage of its strong points in resources to develop its economy. At the opening ceremony of the meeting, leaders of the prefectoral commissioner's office reported to the central and provincial representatives on how to develop tangerines, animal husbandry, electric power, communications, building materials, foodstuff, chemicals, textiles, leather, and medicinal herbs. (Li Boying), party group secretary and director of the State Council's Three Gorges Area Economic Development Office, gave an important and constructive speech on the prospects for the economic development of the prefecture. [Text] [Chengdu Sichuan Provincial Service in Mandarin 2300 GMT 4 Dec 86 HK] /6662

CSO: 4006/172

ECONOMIC MANAGEMENT

YUNNAN HOLDS MEETING ON IMPROVING ENTERPRISE MANAGEMENT

HK251035 Kunming Yunnan Provincial Service in Mandarin 2300 GMT 24 Nov 86

[Text] The first provincial meeting on improving enterprise management, which was held recently, stressed that in grasping the work of upgrading enterprises, the following three tasks must particularly be grasped at present.

1. We must strengthen leadership and properly carry out organizational work in upgrading enterprises. In carrying out the organizational work, we must do the following: 1) We must establish and perfect organs, provide personnel, and carry out the work. 2) We must speed up the formulation of plans. 3) We must set standards for provincial advanced enterprises. 4) We must grasp the focal point to promote the overall work. 5) We must improve consultation service in upgrading enterprises.
2. We must carry out the activities of enterprises upgrading themselves by further improving all basic work and focusing their work on upgrading the quality of products and reducing consumption.
3. We must train management personnel in a large scale and tier by tier, and give them modern management knowledge. The key to upgrading the quality of enterprises lies in upgrading people's quality. People at both high and low levels must treat the training of modern management knowledge as an urgent task, bring into play the role of all parts, give training tier by tier, and bring up a contingent of management personnel with modern management knowledge. Otherwise, upgrading enterprises will become lip service.

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CSO: 4006/172

ECONOMIC MANAGEMENT

SALE OF MACHINES TO REMEDY LOW-UTILIZATION RATE

HK020945 Beijing CHINA DAILY (BUSINESS WEEKLY Supplement) in English 26 Nov 86
p 1

[Article by Staff Reporter Wang Xingcun]

[Text] The Chinese Government has begun to encourage state-owned enterprises to sell unused machines so as to remove its decade-long headache about the low utilization rate of equipment in those factories.

"Enterprises must take an active part in dealing with their idle machines and factory managements should reward their power and equipment departments when they re-use or sell off their idle machines," Zheng Guowei, general engineer of the Production Bureau under the Ministry of Machine Building Industry, said last week at a national conference on the issue.

He later told BUSINESS WEEKLY that he did not know how many idle machines there were in the 100,000 state-owned factories nationwide, but he revealed that a survey was being conducted by the ministry in response to an instruction from Premier Zhao Ziyang.

He also disclosed that more than 20,000 machines are lying idle in the 11,100 factories under the direct leadership of the ministry.

Of those lying idle, there are 2,460 key machines imported by the ministry to meet special needs. The most expensive one is worth 2 million yuan and the cheapest is still over 100,000 yuan.

At last week's conference, 270 contracts for buying some of those idle machines were signed, which amount to 9.63 million yuan. Some 14 factories made orders for 95 second-hand machines from abroad.

In order to help factories with idle machines, all local governments, Zheng said, should set up companies dealing with second-hand equipment.

At present, only Beijing has such a company, Beijing Equipment Development and Regulation Company (BEDRC) located at 58 Meishuguan Houjie, Dongcheng District. It was set up last year by the Economic Commission of the Beijing Municipal Government.

The ministry has experimented with several second-hand equipment markets nationwide since November last year and has got good results, he said.

Early this year, Shanghai Municipal Machinery Bureau held a second-hand equipment fair at Shanghai Diesel Engine Plant. The plant sold 20 of its 27 large machines that had been lying idle and received 3.42 million yuan.

The Henan Provincial Machinery Department held its first second-hand equipment fair last year, ending with a total business transaction volume of 6 million yuan. In its second fair last May, some 64 machines were sold, worth 7.52 million yuan.

Besides the sales of the idle machines, factories are now allowed to lease their machines out, Zheng said.

The low equipment utilization rate has been caused by the government's rigid control over the fixed assets of factories.

According to regulations, once machines are given to a factory as its fixed assets, they remain the property of the state and only the government has the right to decide over their fate.

"As a result, the rate of utilization is astonishingly low in the state-owned factories," he said.

In the 40 factories selected by provincial governments as candidates for the ministry's management award of 1986, the average rate of machine utilization was 52.7 percent. One of the factories only had 22.5 percent of its machines in operation while the rest was left unused, Zheng said.

Yu Jingliang, general manager of BEDRC told BUSINESS WEEKLY that China's state-owned enterprises have 400 billion yuan of fixed assets.

Yu described the main cause for the low rate of utilization as being that factories had no right to sell the machines they did not need.

Another important cause is that machines were given to factories by the state for free. So factories tried to get all kinds of machines in order to finish their products completely within their own workshops. When this happened, many machines were used only several times a year.

The company organized a second-hand equipment fair in September last year in Beijing which was attended by factories from 13 provinces and autonomous regions.

About 2,700 machines were on sale and more than 300 were sold for 2 million yuan.

The company is short of funds to sponsor more fairs, Yu said. It only has 200,000 yuan of floating capital.

It takes a service charge of 1 or 2 percent from buyers, Yu said. So it is very hard for one company to open up the domestic market alone.

Now factories are not only allowed to sell but also encouraged to buy second-hand equipment.

Taiyuan Heavy Machine Factory in Shanxi Province early this year bought a Swiss-made machine from Shijiazhuang Building Machine Plant with 950,000 yuan. The factory would have had to pay \$500,000 to import the same machine today.

Zheng said it was also worth buying second-hand equipment abroad. The ministry has helped a factory in Wuzi, Jiangsu Province, import a complete set of oil pump making equipment from a Spanish company. The factory only paid \$810,000.

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CSO: 4020/61

ECONOMIC MANAGEMENT

SHANXI RADIO COMMENTARY ON STATISTICAL WORK

HK181553 Taiyuan Shanxi Provincial Service in Mandarin 2300 GMT 16 Nov 86

[Station commentary: "In Statistical Work, It Is Necessary to Adhere to the Principle of Seeking Truth from Facts"]

[Excerpts] Statistical work plays an important part in understanding the national conditions and national strengths and in guiding the national economy and social development. Therefore, it is necessary to seek truth from facts. For the past several years, we have basically ensured seeking truth from facts in our statistical work. However, some individual places and units have made false reports to exaggerate or have reported less to cover up. Doing these things is harmful to our country and people. Have we suffered little in this aspect?

The main reason for this phenomenon is that the leaders in some places or units do not have a correct ideological line. Therefore, the key to doing statistical work well lies in our leaders. This requires us, as leaders, to correct our ideological line, to seriously study the law of statistics. We must lead and supervise the statistical organs and personnel to seriously enforce the law of statistics and to implement the system of statistics, and we must create comfortable conditions for the statistical personnel so that they can do statistical work well.

All practices of interfering with the normal work of the statistical organs and with the enforcement of the law and regulations of statistics by the statistical personnel are wrong. Necessary administrative disciplinary actions must be taken against those who make false reports, or make reports to cover up, exaggerate, or [words indistinct], and who forge and tamper with statistical data. It is essential to enforce the law against those whose cases are serious and who cause serious consequences. We must by no means deal with them leniently.

The law of statistics of our country has been promulgated for more than 2 years. So long as we strengthen leadership over the statistical work and seriously enforce the law of statistics, our statistical work will surely [words indistinct]

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CSO: 4006/167

FINANCE AND BANKING

BANK OF CHINA DEALS IN FOREIGN EXCHANGE FUTURES

HK220616 Hong Kong ZHONGGUO XINWEN SHE in Chinese 0815 GMT 20 Nov 86

[Report: "Bank of China Zhujiang Branch in Guangzhou Begins Dealing in Foreign Exchange Futures"--ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou, 20 Nov (ZHONGGUO XINWEN SHE)--In Guangzhou, the Bank of China, Zhujiang Branch, has begun to deal in foreign exchange futures to undertake the risks caused by any change in exchange rates for the domestic enterprises concerned.

The dealing in foreign exchange futures refers to the signing of transaction contracts between import or export enterprises and the bank to determine the fixed rate of exchange between two currencies involved in the transaction at a future transaction date. This enables the import or export enterprises to preserve the value of their foreign exchange reserve and to prevent the risks brought about by the fluctuation of exchange rates. For example, an enterprise signs an import contract worth some 100,000 Belgian francs with a foreign company and will pay in U.S. dollars. After the signing of the import contract, the enterprise can immediately ask the bank to buy Belgian francs and sell U.S. dollars in a 1-year futures transaction at the rate of 62 Belgian francs per U.S. dollar. After 1 year passes, the exchange rate of the U.S. dollar may fall to 49 Belgian francs per dollar, but the enterprise can still get the amount of Belgian francs from the bank at the rate 62 Belgian francs per U.S. dollar.

The Bank of China, Zhujiang Branch, began this business on 10 November. This business will also be favorable to the cost accounting of the import-export enterprises.

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CSO: 4006/171

FINANCE AND BANKING

BANK OPENS FOREIGN-EXCHANGE-BASE LOAN BUSINESS

HK010646 Hong Kong ZHONGGUO XINWEN SHE in Chinese 1426 GMT 28 Nov 86

[Report: "Bank of China To Extend Renminbi Loans to Enterprises With Cash Foreign Exchange as Mortgage"--ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou, 28 Nov (ZHONGGUO XINWEN SHE)--The Bank of China (BOC) will make renminbi loans, with cash in foreign exchange as mortgages in all its branches. This reporter learned of this from the BOC national loan work conference held in Jiangmen City.

According to relevant stipulations, all Sino-foreign joint-ventures enterprises, cooperative enterprises, and wholly foreign-owned enterprises registered in the territory of the PRC are entitled to apply to the BOC for loans in renminbi, using their cash foreign exchange as mortgages to meet the need of renminbi for their enterprises to carry out construction, production, and operations.

After enterprises apply to a bank for loans, using foreign currencies recognized by the BOC as mortgages within a fund-raising time limit, with the endorsement of the borrower and the lender, the enterprises are obliged to sign contracts on mortgage loans and to go through mortgage formalities.

The amount of the mortgage loans will be converted into renminbi according to the renminbi buying exchange rates published by the state exchange control administration on the date when the contracts are signed, and the amount of loans will be given to the enterprises concerned according to a certain discount rate. When the mortgage loan contracts become due, the enterprises should pay back the loans in renminbi and the BOC will return to the former to foreign exchange used as mortgage.

State-owned enterprises and collectively-run enterprises in China are also allowed to borrow loans in renminbi, using their foreign exchange as mortgage according to the above regulations.

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CSO: 4006/171

FINANCE AND BANKING

BANKS URGED TO ADVANCE COUNTRY'S S&T DEVELOPMENT

OW221402 Beijing XINHUA in English 1047 GMT 22 Nov 86

[Text] Beijing, 23 November (XINHUA)--Banks should pave the way for the development of China's science and technology, the president of the Chinese Monetary Society said in today's PEOPLE'S DAILY.

"Science and technology are key points in the development of China's modernization," says President Qiao Peixin, "but, scientific research, technical development, academic exchange at home and abroad and publicity for science are faced with fund shortages.

"It is true that the country has limited finances and materials due to large scale capital construction," says Giao, "but the money should be used in places where it is most needed."

"As far as I know, 30 billion yuan (8.1 billion U.S. dollars) has been wasted on capital construction since the founding of the People's Republic of China in 1949," he warned, "and if this sum of money had been used in the development of science and technology, we could have done many things."

Those who can always find money for capital construction often complain about "fund shortages" when it comes to science and technology, he said. "The important role of science and technology in the modernization drive is replaced by capital construction and this will have serious consequences."

He calls on banks to make use of funds and information to push ahead advances in China's science and technology.

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CSO: 4020/52

FINANCE AND BANKING

CHEN MUHUA SPEAKS ON RURAL FINANCIAL REFORMS

OW290553 Beijing XINHUA Domestic Service in Chinese 0637 GMT 27 Nov 86

[By reporter Ji Bin]

[Text] Beijing, 27 Nov (XINHUA)--Chen Muhua, state councilor and president of the People's Bank of China, said: "Agriculture is the basis of the national economy. In order to help with national economic development, banks should cater to this agricultural basis. Efforts should be made to enliven rural financial markets through reforms of the financial structure, and then, to satisfy the needs of hundreds of millions of peasants to develop a commodity economy."

On the occasion of the Central Rural Work Conference, Chen Muhua invited some of the provincial and autonomous regional comrades in charge of rural work to a seminar to discuss how to further promote reforms of the rural financial structure. Speaking earnestly, comrades attending the seminar related the new experiences and problems of various localities in conducting reforms of the rural financial structure. They all agreed that with reform of the rural economic management system and the development of the commodity economy in recent years, corresponding reforms had also been made, with concrete results, in the guiding principles, operations, and leadership structure of rural financial work. In the meantime, the appearance of a variety of funds in rural areas has not only concentrated the money scattered throughout society and eased the fund shortages of agricultural banks and credit cooperatives, but also met the diverse needs of peasants in developing commodity production. Rural banking is playing an increasingly important role in supporting the development of the commodity economy. However, the current management system and operational method still cannot meet, in many ways, the needs of the growing commodity economic development in rural areas. China has now begun to develop a planned commodity economy, and the preliminary framework for a new rural economic structure has formed. Accordingly, rural financial work is faced with the main tasks of expediting reform of the rural financial structure; of actively opening up rural financial markets; of promoting the rational flow and combination of other essential production factors through fund circulation; of supporting multiple forms of rural economic association, agrotechnical transformation, readjustment of the rural production structure,

and overall rural economic development; and of making contributions to developing rural commodity production and perfecting the new rural economic structure.

Chen Muhua was extremely grateful for the valuable opinions offered by everyone in connection with reform of the rural financial structure. She said: Fund shortages are going to be a long-term problem in China's agricultural modernization. However, it should be noted that the funds in society will increase gradually with the development of the rural commodity economy and the rise in peasant incomes. As long as we guide our actions according to circumstances, promote reforms of the rural financial structure, and use the credit system to gather the funds scattered throughout society and rural areas for use in agricultural modernization, we can overcome the problem of fund shortages. Therefore, we should unanimously recognize the need to shatter outmoded ideas, to strive to make reforms of the rural financial structure successful, and to actively open up and establish rural financial markets in a step-by-step manner.

Chen Muhua noted: The goals of the overall reform of the financial structure are: 1) to maintain a general balance between the overall demand and supply to create a relaxed and stable economic climate and facilitate the implementation of the various measures for economic reform; and 2) to try in every possible way to make flexible use of funds. Reforms of the rural financial structure should also follow this course.

On reforming the credit cooperatives, Chen Muhua said: In enlivening the credit cooperatives, the important question is what is the best way to do the job. Currently, we do not have a general model to follow. Thus, we must permit experiments with diverse models, not just one. She stressed that banking is to economic activity what blood circulation is to the human body. It must never be blocked or become chaotic. Therefore, reforming the credit cooperatives calls for both bold experiments and leadership guidance. Disorder should never be allowed to take place. When asked whether or not the credit cooperatives should be allowed to become independent of the agricultural banks, Chen Muhua said: We should experiment with the idea. But when the two are allowed to become independent of each other, the operation of the agricultural banks should be expanded, permitting them to do business both in the cities and the countryside. The credit cooperatives' decisionmaking power should be expanded, and the ratio of reserve funds deposited by the credit cooperatives in the agricultural banks may also be reduced. But the credit cooperatives must shoulder a part of the task of farm loans. The credit cooperatives may implement floating interest rates provided they are responsible for their own profits and losses.

On the question of establishing financial organs in rural areas, Chen Muhua stressed that rural financial organizations can be established only on approval of authorities concerned, and that they should be put under the legal control of the financial management system. Individual-run financial agencies are not allowed by the State Council-promulgated "Provisional Regulation Governing Bank Management." But individuals may engage in financial activities through

the cooperatives. Pilot projects will be allowed for experiments with the opening of financial markets in rural areas.

Chen Muhua said: Rural stock enterprises and integrated complexes should be developed. An integrated complex with a certain capital of its own is eligible to apply for loans. But it must have a constitution stipulating rights and obligations. An integrated complex may be treated on the same footing as a collective enterprise. The village and township enterprises may pioneer in new capital resources, such as issuing stocks. But a limit should be imposed. Some sort of credit evaluation organ should be established to assess the credit and truthworthiness of enterprises to facilitate the issuance of stocks. This is the direction the village and township enterprises should take.

Some comrades asked: Can credit loan and investment companies be established in the rural areas? Chen Muhua answered: Credit loan and investment companies may be established in rural areas according to stipulations in the "Provisional Regulation Governing Bank Management." But they must acquire the status of legal persons and must meet all necessary requirements.

In conclusion, Chen Muhua said: Some collective forest areas are considering pioneering in forestry credit loans. This is feasible. But no special agencies are needed. They can entrust the banks to act as agents. The banks do offer such services and can act as agents. They are willing to provide the rural areas with more and better services.

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CSO: 4006/171

FINANCE AND BANKING

PAPER ENCOURAGES RURAL CADRES TO STUDY FINANCE

HK260795 Beijing NONGMIN RIBAO in Chinese 15 Nov 86 p 1

[Commentator's article: Rural Cadres Should Acquire Some Knowledge of Finance"]

[Text] With the advance of rural reform and development of the commodity economy, they themselves, enhanced their abilities, and improved their competence. The shift from exclusively grasping grain production and pressing peasants to gather in crops and to till the land, to learning to grasp diversified undertakings and the all-round development of agriculture, forestry, animal husbandry, sideline occupations, and fisheries, represents progress. The shift from engaging exclusively in agriculture to understanding the truth about the formulation "no economic stability without agricultural development, no prosperity without engaging in industry, and no economic invigoration without commerce," and learning how to carry out the comprehensive management of agriculture, industry, and commerce represents more progress. Today, we maintain that rural cadres should also acquire some knowledge of finance so that they can suit the needs of guiding further development of the rural commodity economy.

Finance is closely related to development of the rural commodity economy. In developing commodity economy we cannot but come into contact with finance. It will not do to be completely in the dark about finance. The scale of our rural commodity economy has grown over the past few years. It calls not only for the establishment of consumer goods markets, production means markets, technology markets, and labor service markets, but also for the opening and establishment of capital markets in a planned way. If there are no capital markets suited to the needs of the commodity economy, we will not be able to use capital extensively and economic development will be affected. Experience tells us: If finance is not invigorated, it will be difficult to invigorate the economy. In practical work, many comrades have profoundly realized that it is necessary to further reform the existing rural financial structure and that, in order to guide this reform, it is necessary to have some knowledge of finance. In rural economic construction, capital shortage will be a long-term contradiction. Our task is to make the widest possible use of existing capital in the rural areas and to use it flexibly. "Finance is valued for its use." To change the situation characterized by the division of departments at different levels, and the numerous restrictions in

the use of rural credits and the ineffective use of funds by borrowing units, it is imperative to use funds extensively, to speed up their turnover, and to use the money several hundred percent more effectively than its face value. Only in this way can finance serve the development of the rural commodity economy more satisfactorily.

Due to the fact that for a long time our rural areas have been in a state of closed, self-supporting, or semi-self-supporting natural economy, and that the commodity economy is underdeveloped, many rural cadres have not had much contact with finance. They have insufficient knowledge of finance and lack the skills to invigorate finances. Quite a few comrades are ineffective at launching financial activities according to market mechanisms, collecting funds from society, and using the bank money flexibly. On the one hand, some localities say that they are short of funds; on the other, they do not make good use of the idle funds in society and banks even find it difficult to extend credits. It should be noted that there is already a large amount of capital in rural areas. So long as it is used flexibly, it can develop the ability to develop itself. At the mention of increasing agricultural investments, some comrades who still judge things by old standards and take the beaten tracks, only consider the question of how to get more credits. Regarding bank money as the state's, they want to get more money from the "big pot." Other comrades simply rely on the administrative other method to conduct financial work. They do not act according to the financial regulations, and still less are they effective in using finance as a means of indirectly controlling economic management. To change these phenomena, it is necessary to study hard and increase knowledge of finance, turning ourselves into half-bankers.

Rural cadres can gain knowledge of finance by various methods. For example, they can read books on finance and run short-term training courses. But the most practical and effective method is to plunge into rural financial reform and to study reform practice in the course of developing the commodity economy. We believe that reform can yield economic results and train competent people.

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CSO: 4006/171

IMPACT OF ECONOMIC REFORM ON MONEY SUPPLY

Guangzhou GUANGZHOU YANJIU [GUANGZHOU STUDIES] in Chinese No 7, Jul 86 pp 12-16

[Article by Wei Fengyi [5898 7685 0308] and Zhou Bainian [0719 2672 1628]: "Reasons for Expansion in the Money Supply"]

[Excerpts]

I. Impact of Economic Reform on the Money Supply

1) Reforms in the circulation system have led to an increase in the money supply. In recent years Guangzhou has adopted an open door policy regarding the circulation system, unclogged circulation channels, reformed the purchase and marketing system, lifted price control, and facilitated the flow of goods. As a result, it has transformed the commodity management system from a closed, purely administrative affair into an open, business-oriented commodity circulation system with diversified circulation channels and a variety of economic forms. Concomitant with this development is an explosion in the money supply, the widespread use of cash in accounts settlement, and a significant increase in the number of areas where cash is tied up.

(1) The reduction of the accounting unit in commercial enterprises and the increase of commercial points have caused the money supply to expand. Revolving around the policy of "opening to the outside world and vitalizing the economy," more and more enterprises have gradually been adopting the system of contract responsibility internally, while reducing the independent accounting unit. At present, of the 2,043 small businesses in the municipality, 1,161 have converted to state ownership to be operated collectively and responsible for their own profits and losses, 436 have switched over to collective ownership, and 26 have been leased to individual operators. Meanwhile, the number of commercial retail points has risen rapidly as economic organizations in all operational and economic shapes and forms proliferate, such as trading companies, labor service companies, commercial firms, and exhibition and sales departments, etc. As of late September 1985, there were over 50,000 commercial points in the urban areas, employing more than 400,000 people. As the number of units went up and their scope of business widened, their working funds also grew commensurately. Statistics show that there were 652 more commercial enterprises in the municipality in 1985 than in 1984, up 5.63 percent. This increase in number

of units alone boosted cash reserves by 1.45 million yuan.

(2) Swinging open the municipal door, breaking down urban-rural and inter-regional barriers, and achieving economic cooperation have increased the money supply. To further the policy of opening to the outside world and vitalizing the economy, Guangzhou promulgated 10 preferential measures in 1985 aimed at attracting out-of-towners to do business and set up enterprises in the municipality. According to incomplete data, more than 2,000 stores and factories had been established by out-of-towners in Guangzhou by late 1985. Buying and selling channels, too, have undergone changes as enterprises were allowed to do business directly with individual households, township and town enterprises, and specialized households. To a certain extent, this has stimulated material exchange between urban and rural areas and interregionally.

(3) The individual economy is booming and working funds have been expanding apace. Statistically, urban and rural individual households in Guangzhou totalled 94,400 in late 1985, up 11.13 percent over 1984, with combined sales of 1.251 billion yuan, a 12-fold increase over the year before. Their combined sales accounted for 14.97 percent of total social commodity retail sales, compared to 9.56 percent in 1984. Because of the uninterrupted surge in the individual economy and the fact that transactions in this sector all use cash, its working funds have also increased. In 1985, the municipality's individual households saw their working funds jump 23.55 percent over 1984 and had in hand over 200 million yuan in cash. This drastically retarded the withdrawal of money from circulation and vastly increased the money supply.

2) The service industry and tourism have been growing by leaps and bounds. As purchasing power increases by the day, it also pushes up the money supply.

3) As a result of reforms to change the unsound price system, prices have gone up significantly, thus increasing the money supply. Since late 1984, Guangzhou has been reforming the price contract system and price system systematically in accordance with the government's centralized plan, deregulating prices by stages and in groups. In 1985, the municipality's social retail price index climbed 22.5 percent, the highest in the nation. Even as it adjusted prices, the government also gave out price subsidies. For instance, it spent a total of about 60 million yuan in 1985 to cover the difference between the list price of pork and its free market price twice. Again, in the second half of 1985, it spent more than 30 million yuan on vegetable subsidies for cadres and workers, in the process pumping large sums of money into circulation. After adjusted for inflation, the money supply expanded an effective 5.67 percent in 1985.

4) Reforms in the wage and distribution system of enterprises and the wage system of administrative units and institutions have swelled consumption funds. In more than 70 percent of the enterprises today, wages are linked to economic results. This linkage takes a number of forms. For instance, a worker with 100 yuan in output or sales to his credit will draw a certain percentage of the profits. In 1985, total social output value, labor productivity at state-owned industrial enterprises, and combined payrolls rose 19.3, 19.48, and 23.08 percent, respectively, over 1984. Starting September

1985, administrative units and institutions have been reforming their wage system, with municipal-level units alone paying out 30 million yuan in increased wages. Altogether wage increases cost 42 million yuan, including those by central and provincial units in the municipality. The loss of control over consumption funds in 1984 continued into the first quarter of 1985. For that year as a whole, consumption funds expanded 33.83 percent, what with the above-mentioned wage increases and various living subsidies. A corollary of this expansion in consumption funds was an increase in residents' incomes and the amount of cash in hand. It is estimated that urban residents had 13.54 percent more cash in hand in 1985 compared to 1984.

5) Changes in the rural industrial structure and the development of township and town enterprises helped boost the rural money supply. Most township and town enterprises are operated by collectives and individuals. Like specialized households and various integrated economic bodies, they base production on the supply and demand situation in the market, secure their own raw materials, and look for markets on their own. Cash is heavily involved in their transactions. Statistics show that township and town enterprises throughout the municipality increased their earnings by 35 percent and withdrew 10.61 percent more cash from banks in 1985 compared to a year ago. After price control was totally lifted from agricultural byproducts, specialized households in the countryside have been able to increase their earnings considerably by supplying the market with plenty of good-quality fresh live products. In 1985, the three major combined retail price indices for meat, poultry and eggs, aquatic products, and vegetables alone soared 35.1, 36.2, and 66.3 percent, respectively. The procurement of agricultural byproducts channelled 43.04 percent more cash into circulation in 1985 than in 1984. Moreover, as the rural contracting system continued to be put into effect, a vast number of surplus laborers from the countryside migrated to the urban areas to be temporary, contract, and construction workers. Apart from keeping enough money as necessary living expenses, some of these workers remit their wages home through the rural credit cooperative, which will wind up in circulation. In 1985, funds put into circulation through the rural financial credit system increased by a net 28.94 percent over 1984. In the same year, peasant earnings averaged 648.96 yuan per capita, a gain of 18.38 percent, while the average peasant had 38.6 percent more cash in hand than a year ago. Hence the countryside accounts for a sizable portion of the increase in money supply.

6) The starting point for account settlement in cash has been raised from 100 to 500 yuan. Measures designed to encourage exports, increasing efforts to raise capital in society, and increases in worker dividends, interest on loans, and bonuses all make for an expansion in the money supply. The above circumstances demonstrate that as the restructuring of the economic system went under way in Guangzhou, enterprises, departments, and individuals all come into possession of significantly more currency than before. The injection of this massive amount of currency into circulation, unaccompanied by appropriate actions, has had some adverse impacts on the municipality's economic development: 1) The presence of more currency floating around in society is an important reason for the sharp jump in the municipality's price index. 2) A buoyant economy has resulted in a huge demand for funds by the production and circulation sectors. At the same time, however, banks have

been unable to effectively pool idle funds for maximum utilization. Given the insufficient sources of funds, the gap between fund supply and demand is widening by the day. 3) Opportunities were created for speculative elements. Some enterprises and private individuals, for instance, practice usury. Meanwhile there has developed an unhealthy tendency among certain grassroots banks and credit cooperatives to demand a handling fee in return for paying cash.

II. Issues That Have To Be Addressed Following the Expansion of the Money Supply

In a recent analysis of the reasons for the slow withdrawal of money from circulation, Xue Muqiao [5641 2550 2890], the well-known economist, noted that the crux of the problem is that it is difficult to deposit money at or withdraw money from a bank, not to mention remitting money. Secondly, peasants have gotten richer but commercial development in the countryside has failed to keep pace. The result is that while they have money alright, they cannot spend it anywhere. A similar situation has happened in Guangzhou, although its countryside has done a little better commercially. To put an end to the passive situation above, banks did a number of right things in 1985, but the pace of reform was slow, way behind other aspects of the restructuring of the economic system. Since reforms have proceeded at different speeds and are not coordinated with one another, some problems have arisen, which we must address and work out.

1) Direct target control is an unscientific way to restrain the money supply. Experience tells us that the money supply comes from loans, that loans are made by the grassroots branches of specialized banks, and that every time such a branch issues a loan, it represents an increment to the money supply. The head office works out a credit income and expenditure plan and uses targets to control the scale of lending of various specialized banks. On the surface this method works very well. But because the credit fund management system has not been properly reorganized and the credit fund supply system is artificially swelling the money supply, relying on target control alone often fails to prevent inflation or avoid a loss of control on lending.

The key to solving the problem is to apply economic tools to exercise indirect control on the local branches of specialized banks that are in a position to channel funds into the money supply.

Measures announced in 1985 to manage credit funds subject the amount of lending by a specialized bank to the strict control of the scale of lending. If it absorbs more deposits, it may not make more loans. If it absorbs less deposits, on the other hand, it must correspondingly reduce the lending target. This weakens the initiative of a bank to attract more deposits. The municipal Agricultural Bank, for instance, over-fulfilled its deposit expansion target 3-fold in 1985, or 467 million yuan, of which 80 million were increases in savings deposits in rural townships. Restricted by the scale of lending, however, it could not use the increase in deposits as loans. All it could do is to deposit the extra monry into the People's Bank at an interest rate of only 3.6 percent, much lower than the average cost of its various

kinds of deposits and the average cost of its savings deposits (a little over 5 and 7 percent, respectively). The more deposits it attracts, the heavier its losses will be. This directly undermines its enthusiasm to increase deposits.

2) Cash management is overly rigid. Some grassroots banks, in particular, still apply just one set of rules to all situations as far as cash management is concerned. This is incompatible with the demand of the situation. The strengthening of cash management can do much to limit the growth of the money supply and economize on the use of cash. As the commodity economy matures, the instruments of account settlement should also become more advanced and diversified and the use of cash should gradually diminish. At present Guangzhou's commodity economy is on the upswing, but the reform of the instruments of account settlement has fallen behind the demand of the times, with the result that the volume of cash inevitably expands. Under these circumstances, it is well nigh impossible to curtail the volume of cash artificially. To keep within the cash issue plan (or to fulfill their plan of cash withdrawal from circulation), some local branches or offices, in particular, even go so far as to limit the normal cash use by enterprises, restrict the withdrawal by individual households of large sums of cash, and curtail the redemption of bank drafts. Such practices have negative effects, both direct and indirect. For instance, many individual households, to shield their cash from scrutiny, have become reluctant to deposit their money in the bank. Some enterprises deposit cash in savings offices so that they can withdraw it later for other uses. Then there are enterprises which offer customers 5 to 10 percent discount if the latter pay in cash. For yet others, it is simply a case of no cash, no deal.

3) The dearth of account settlement instruments is a critical reason for the bottlenecks in the circulation of currency. Right now account settlement instruments are too few and too inflexible to satisfy the account settlement demand of multi-level and multifarious economic entities. Currently when an enterprise purchases out of town or when an individual household purchases commodities, it usually settles accounts with large sums of cash. In 1985, the banks did carry out some account settlement reforms, but numerous problems remain. First, a number of lawless collective enterprises and individual households write bad or forged checks to defraud enterprises of merchandise. To protect themselves from economic losses, enterprises therefore refuse to accept transferred checks, which directly prevents the transfer-account checks of collective enterprises and individual households from becoming more widespread in use. Second, fixed-amount transfer-account checks paid to peasants in exchange for agricultural byproducts can only be used to finance purchases from the supply and marketing cooperative. Since peasants find them less convenient than cash, it is hard to popularize them. Just such a popularization attempt was made in the grain-producing area in Qingyuan County in the Guangzhou region in 1985, yet only 298,000 yuan worth of transfer account checks were issued, a mere 6.7 percent of the total value of grain procured in the same period. Third, an effort was made in 1985 to popularize commercial bank drafts. Specialized banks believe that they would develop cash flow difficulties if the People's Bank does not offer rediscount services.

4) Interest rates on savings are too low, there are too few savings points, services are poor, and the management system is in dire need of reform. To steer some of the excess money floating around into savings accounts is an effective way to boost purchasing power and stabilize the currency. However, Guangzhou banks at present offer very low interest rates on savings deposits, with the one-year fixed deposit paying only 6.84 percent in interest. At a time when the city's price index rose 22.5 percent (12 percent nationally) over the preceding year, this kind of savings interest rates is not high enough to offset inflation. When interest rates are too low, they cannot attract private deposits. Also, there is a scarcity of savings points in the municipality. According to statistics at the end of 1985, there were only 86 points in the urban areas, or 1 saving point per 37,000 people, lower than the national average of 20,000. Compared to such municipalities as Wuhan, Tianjian, and Chongqing, Guangzhou has the most savings deposits, but the smallest number of savings points. This is ill-suited to the trend of economic development in the municipality. Guangzhou banks offer poor services, their operations are backward, and depositors are kept waiting for long periods of time. Moreover, most banks are closed after 6 pm. All this makes the masses feel that "it is difficult to open a savings account."

III. Several Measures That Banks Should Take

To adapt to the expansion of the money supply in Guangzhou, banks should reform the credit fund management system, improve cash management and the instruments of account settlement, and encourage savings.

1) Gradually phase out the existing method of controlling credit through plan targets. Instead we should make use of the credit relations between the central bank and various specialized banks, employ such control tools as deposit reserve fund, discount rate, open market, etc., to indirectly control the money supply. At the same time, we should reform the credit fund management system. The head office of the People's Bank should set a lending ceiling for the Guangzhou region. Any extra deposits absorbed can be used to make more working fund loans, as long as the ceiling is not exceeded. If a specialized bank over-fulfills its deposit plan and needs to expand its scale of lending, it can apply for permission from the municipal People's Bank. It is for the latter to adjust accordingly. In addition, we can set aside a certain portion as technological transformation loans, based on the increase rate in urban savings deposits. The People's Bank should offer rediscount services to specialized banks without delay and support the latter in developing their discount services. Furthermore, all specialized banks (except the Construction Bank) currently set their deposit reserve fund at 10 percent "across-the-board." This is very unreasonable. Since specialized banks make loans out of savings deposits, they are in effect transforming consumption funds into production funds. Because of this, it might be good if the reserve fund rate is lower. However, because enterprise deposits generate deposits, it might be good if the reserve fund rate is higher.

2) Take pains to improve cash management even as we strengthen it. To satisfy enterprises' legitimate cash needs, particularly the need to pay for

agricultural byproducts in cash, we may raise the limit on the amount of cash they can keep in stock and the maximum value of cash account settlements. If a bill of exchange is bought with cash, then it must be paid in cash. There should be no restriction on the value of large cash withdrawals by individual or specialized households as long as they have deposits in their accounts.

3) Reform and create credit instruments, apply such advanced equipment as the computer, and improve work efficiency. We need to improve the creditability of credit instruments and encourage the use of certified checks. The use of fixed time cashier's checks to settle accounts should be encouraged to fill the gap resulting from the fact that only branches above the county level can process accounts involving money orders, etc. The use of rural account transfer checks should be broadened to include the purchases of means of livelihood and means of production and debt repayment. If the account settlement date has passed, it can be automatically changed into savings and earn interest as provided by bank regulations. We can also launch such services as electronic remission of money, traveler's checks, credit card, and savings checks, etc, on a trial basis, depending on need.

4) Raise savings interest rates and again work out a proper interest rate for loans, taking into account increases in the nation's price index and the ability of enterprises to pay them. Right now the longer the maturing period of a loan, the lower the interest rate. This does not make sense and must be changed.

There should be more openness and cooperation in the savings business. Specialized banks may add savings to their line of business at the existing offices in accordance with the regulations of the head office of the People's Bank. In addition, if a specialized bank henceforth wants to open up a savings office, it can do so provided permission is obtained from the municipal People's Bank. In ruling on such an application, the People's Bank should consider the sound distribution of savings offices and the needs of economic development.

5) step up research on the money supply. Cooperating closely with the departments concerned, the banks should analyze the trend by which cash is put into circulation and stay on top of the money supply situation regularly, paying particular attention to interregional money circulation. They should also do a good job in comprehensive reporting, acquire experience continuously, master the laws, and guide cash allocation and supply work.

12581
CSO: 4006/99

PROBLEMS IN CURRENT PRICE INSPECTION

Beijing JIAGE LILUN YU SHIJIAN [PRICE: THEORY AND PRACTICE] in Chinese No 5,
20 Sep 86 p 42

[Article by Zhao Changyou [6392 7022 0645]: "Price Inspection Runs into Resistance"]

[Text] In recent years, following the creation and strengthening of price inspection organizations, price inspection has developed in breadth and depth and achieved remarkable success. Nevertheless, price inspection today still faces formidable difficulties and resistance, the most prominent of which are the following:

1. Units that have violated rules and regulations do everything possible to resist inspection. Some refuse to have their accounts audited or provide bills and receipts. Some even destroy their books. Individuals at certain culpable units verbally abuse inspection personnel with sarcastic or ironic remarks, chiding them as "money grabbers." Others try to get even. For instance, after the Petroleum Supply and Marketing Company was penalized for violating price discipline, its people put pressure on inspection personnel by cutting off oil supply. Others go around lodging complaints against inspection personnel and look for support after economic penalties are imposed on them. As for those industries enjoying a monopoly and enterprises that have once been billed as advanced models, some simply consider themselves untouchable. They are given to denouncing price investigations as "attacks on reform" that are "motivated by jealousy" and contrary to the instructions of such and such a leader. They also wilfully accuse the inspectors of all sorts of crimes. Some even go as far as closing down their businesses for reorganization to thwart the inspection personnel.
2. Some people in the functional departments in charge make excuses for departments in violation of discipline each and every way and stress "objective reasons," doing their best to absolve them of any wrong-doing. Some even try to shield them and openly intercede on their behalf, lending support to their resistance to inspection. They spread rumors to attack the price inspection department. This is a major difficulty facing price inspection today.
3. Some economic management departments do not allow price inspection

departments to handle cases where discipline has been violated, preferring to tackle them themselves. Or they demand that cases which have been processed be reopened in the name of "arbitration." Sometimes pricing departments are not given the authority due them to deal with cases within their jurisdiction under the regulations.

4. Some "companies" and "centers," taking advantage of deregulation and economic vitalization, resort to all kinds of tricks to get around price regulations, tricks so ingenious that they vastly complicate price inspection. Some of them do not have permanent premises, so inspection personnel cannot lay hands on them or their books. And since they do not keep deposits in the bank, there is no illegal income to be confiscated when things go wrong for them.

5. All price inspection offices have been set up only in the past couple of years, with an average of just five or six staff members for every county, not enough to discharge their heavy inspection responsibilities. Moreover, there is no single inspection symbol; most business units and individuals, not knowing that price inspection is an important administrative executive function, refuse to admit individual inspectors.

6. The departments concerned have failed to coordinate themselves closely with the price inspection agency. They fail to punish people who have violated price regulations and whose attitude is poor. Some of the leaders in charge of units that have seriously violated the law are even commended time and again and praised as advanced representatives.

7. Some documents on price policies contradict one another. For example, a single issue may often be governed by conflicting regulations issued by different functional agencies and the price agency. This creates immense difficulties for price inspection. Under the regulations of the State Price Bureau, for instance, means of production in the plan should not be sold outside it. Yet the regulations of some functional agencies do permit such sales at high prices.

To overcome the above problems and resistance facing price inspection effectively, we should correct the view that price inspection and price adjustment are incompatible with each other, raise the status of price inspection departments among administrative and executive organs, draw up rules and regulations to institutionalize and regularize price inspection, and establish a corps of personnel capable of publicizing the party's price policy as well as inspecting prices.

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FINANCE AND BANKING

GUANGMING RIBAO ON DIFFERING VIEWS ON STOCK SYSTEM

HK010717 Beijing GUANGMING RIBAO in Chinese 15 Nov 86 p 3

[Article by Hao Zhensheng (6787 2182 0524): "Differing Views on the Stock System"]

[Text] There has been widespread discussion on the stock system since the beginning of last year.

Can Reforms in Enterprises Under Ownership by the Whole People be Oriented to the Formation of the Stock System

Some people are of the opinion that the stock system is where the vitality of enterprises originates from, is an effective means for the state to exercise macroeconomic control, and is an inevitable outcome of the contradictions between socialist productive forces and production relations. The stock system will enable us to solve the shortcoming of only being able to "tighten the grip on" or "relax" the operational and managerial rights under the system characterized by the separation of ownership from operational powers, to discard the factors in the collective or enterprise ownership mode that hamper the free circulation and rational formation of the labor force and funds, and to remove from the contract or hiring system whatever hinders the organic combination of the interests of owners and dealers. Therefore, operating the stock system is the basic method for invigorating enterprises under ownership by whole people. Some other people hold that reforms in enterprises under ownership by the whole people should not be carried out in the direction of the formation of the stock system, but that the mode characterized by the separation of the two powers should be improved and consolidated under the condition of adhering to state ownership. Although the stock system can help increase the factors for the state, the enterprise, and the individual to restrict each other, neither the enterprise nor the individual shareholder will, for the moment, be granted policymaking powers of practical significance, nor is it possible to get rid of administrative intervention or to invigorate the enterprise. As for the problems arising in the course of the implementation of the system characterized by the separation of the two powers, they are not necessarily directly connected with the separation of the two powers.

The Nature of the Stock System

Most of our comrades maintain that the stock system is an organizational form in production and operation that is taking shape on the basis of the development of commodity economy and large-scale socialized production and that in itself it does not determine the nature of society. Capitalism may use it to develop the productive forces, as may socialism to promote commodity economy. The operating of the stock system in socialist enterprises is a specific form of direct combination of laborers with the means of production under the conditions of socialist commodity economy. Stock dividends do not necessarily suggest capitalist exploitation because these dividends are distributed according to the number of shares being held. As a result of this distribution, the state has more social accumulation, the enterprise is more capable of expanding its reproduction, and what is obtained by the individual can be referred to as a means of material encouragement rendered to him by society for his contribution to the country's construction, its nature being similar to that of bank deposit interest.

Some comrades hold views contrary to the above. They say that it is difficult to prove that it is economic progress to return to the stock economy when all capital, including stock capital, has become the property of the whole people. Stocks are a product of large-scale capitalist production and therefore have a capitalist nature. The nature of socialist enterprises will change with the issuance of stocks, and the opening of a stock market will lead to stock speculation. As a result, a small number of people will possibly live on the dividends from the large amount of stocks they hold.

There are also two different views on the nature of socialist joint-stock enterprises. 1) The stock system is merely the external form of the relationships of the ownership system. The key factor that determines the nature of a joint-stock enterprise is who controls the larger portion of stocks. If the larger portion of stocks is controlled by particular individuals, it will be impossible to retain the public ownership nature of the joint-stock enterprise. To ensure that the joint-stock enterprise is under ownership by the whole people, the state should possess the larger portion of stocks and have in law the right to possess the larger portion of production materials. 2) The organizational form of a modern joint-stock enterprise indicates that the possession of a relatively small majority of stocks, be it only by some 10 percent or even a few percent, will facilitate control over the enterprise. In a socialist joint-stock economy, the leading role of public ownership can be ensured so long as the state holds the larger portion of the stocks of key enterprises in the national economy and participates in or controls some secondary enterprises.

The Purpose of and Conditions for Operating the Stock System

The first point is whether the stock system can help resolve the short-term behavior of enterprises. Some people are of the opinion that the stock system can help in achieving unanimity of ownership and operational rights and create an integrated body comprising the state, the enterprise, and the individual,

thereby making it possible for enterprises to get rid of their short-term behavior. The implementation of the stock system in enterprises under ownership by the whole people can break the state's absolute monopoly over the property of these enterprises, make the relationships of ownership more specific, and turn these enterprises into bodies really representing the interests of the state, the enterprise, and the individual. In this way, laborers will really feel that they are the masters of production materials, enterprises will have the impetus to expand their production, and the state's fundamental interests will be ensured. Some other people point out that the short-term behavior of enterprises has resulted from many factors, such as the expansion of consumption funds, the soaring of the prices of consumer goods, the side effects brought about by the reform of the life-long tenure of office, incomplete reform measures, unstable policies, and ineffective macroeconomic management. Therefore, the stock system can in no way help enterprises put an end to their short-term behavior; on the contrary, it will help strengthen their short-term behavior because under this system they have to defray stock dividends.

The second point is whether the stock system will help straighten out the economic relationship between the state and enterprises. Some comrades point out that the stock system will enable enterprises to obtain the right to possess and use the means of production and to become really independent commodity producers. The stock system is beneficial to developing socialist commodity economy, to preventing government organs from directly controlling the production and operation of enterprises, and to helping government organs concentrate their efforts on macroeconomic control and regulation.

Some other comrades, however, maintain that the stock system cannot solve the shortcoming of government administration being mixed with enterprise management, nor can it help the state, departments, and local governments settle the contradictions between being stockholders and performing operational and administrative functions. There is no fundamental difference between the state's intervention in enterprises in the capacity of a big stockholder and its previous intervention by administrative means or orders.

The third point is whether the stock system can play a positive role in raising funds and rationally utilizing various types of resources. Some people hold that the stock system can help absorb scattered funds in society, make up the funds shortage in modern construction, improve enterprises' competitiveness, shift consumption funds to the production field, bring about the necessary transference and reorganization of funds, and rationally use various types of resources. Others maintain that raising funds through the stock exchange is a monetary activity outside the banking system, is detrimental to state unified management of funds, weakens the ability to exercise macroeconomic control, and will possibly lead to further blindness in investment; whereas raising funds through banks is advantageous to guiding and regulating the microeconomic activity of enterprises, to centralizing funds on a large scale, and to guaranteeing the state's key construction projects.

The fourth point concerns the state's key construction projects. Most of our comrades agree that there are many economic forms in China, such as ownership by the whole people, collective ownership, individual ownership, and Sino-foreign joint-venture ownership. Various types of economic relationships objectively exist between enterprises under these different types of ownership. These enterprises make investments in each other's undertakings or merge their capital to establish long-term, stable relationships. With the expansion of enterprises' autonomy, the percentage of profit retention increases, self-retained capital keeps expanding, and nongovernmental financial resources grow rapidly. All this provides greater possibilities for the implementation of the stock system. Some comrades say that society is not provided with the ability to buy stocks even if enterprises under ownership by the whole people are allowed to be run under the stock system. Other enterprises and individuals cannot afford to buy the fixed assets of state enterprises worth several hundred billion yuan. China is shifting from one type of economic operational mechanism to another, its economic relationships have not been straightened out, there is no stock exchange market, and its monetary market is still imperfect. Under such circumstances, the implementation of the stock system will make reforms more difficult.

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CSO: 4006/171

FINANCE AND BANKING

CHINA DAILY COMMENTATOR ON STOCK MARKET

HK220322 Beijing CHINA DAILY in English 22 Nov 86 p 4

["Opinion" column by CHINA DAILY commentator: "Financial Market"]

[Text] Can a socialist economy have a stock market?

Here in Beijing, no one seems to question its necessity. It is virtually certain that the country's second revolution--the economic reform--will sooner or later develop a financial market as part of its socialist economy.

The existing unwieldy financial system, which has long been in the state's monopolistic grip, must be made into an efficient one that helps rationalize national development.

Enterprises under the old financial system compete for state allocations of funds without considering how quickly they can contribute to the nation's money pool, showing little concern as to where the money comes from--the people. Everyone now is keenly aware that the way society's finances are managed must be greatly improved.

Since China plans to launch a vigorous advance into the next century, it has to be a wise money spender. A large country, it cannot rely on foreign borrowing only. Financial power should rest mainly on its own accumulation of money. A hefty amount is lying in enterprises' bank accounts and individuals' pockets. It is pointless to leave such an amount idle.

The state is the chief financer of the country's spending and development, but it is short of money. This is in contrast with the ever-increasing demand for funds on the part of enterprises--publicly as well as collectively and individually run.

A financial market can channel more funds than does the present highly centralized financial system. It will mobilize more money from enterprises and individuals and make money users more responsible.

More swiftly-flowing funds can be used to do more things especially in supporting the nation's large-scale projects. Banks and stock exchanges will serve as adaptive instruments for the state to adjust economic development indirectly.

Financial reform is one of the goals of the nation's 1986-90 development programme and the government has started quite a few pilot projects, training personnel and studying foreign experiences.

In the countryside, there now are credit co-ops and other forms of money cooperation in which farmers are voluntarily engaged. Factories issue bonds and small-scale venture capital firms and exchanges support industries in the cities.

Many of these have proved helpful and are multiplying. But they cannot yet match the scope required for the nation and its industrial base.

It will take much learning before China really has a fully developed financial market. The recent seminar jointly sponsored by the People's Bank of China and the New York Stock Exchange enabled us to get a look at how a financial market works in a sophisticated capitalist economy.

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CSO: 4020/52

INDUSTRY

YAO YILIN INSPECTS SHANGHAI PLANTS 10 NOVEMBER

OW140625 Beijing XINHUA Domestic Service in Chinese 0835 GMT 13 Nov 86

[By reporter Chen Maodi]

[Text] Shanghai, 13 November (XINHUA)--While briefing Vice Premier Yao Yilin, who was conducting a study tour of the Shanghai Iron and Steel Complex, Li Ming, chief engineer of the complex, said on 10 November that the steel mill would fulfill this year's state plan of producing 2.2 million metric tons of iron and 2 million metric tons of steel. Li added that of the 22 principal projects of the first-stage construction of the complex, all the projects essential before the first rolling operation had been completed, and all equipment was functioning well.

During the briefing, Yao Yilin pointed out that, to expedite the construction of the complex, the state would study solutions to resolve its construction problems. He urged the complex to exert greater efforts to control the number of personnel and raise productivity.

On 10 November, Yao Yilin also inspected the Shanghai Aircraft Plant to familiarize himself with the manufacturing of the MD-82 passenger aircraft built with Chinese and U.S. capital.

During the inspection, Yao Yilin also heard a briefing by the Shanghai Municipal CPC Committee and the Shanghai Municipal People's Government on Shanghai's economic work. He urged Shanghai to expand its exports, intensify research, choose the right market and commodities, and earn more foreign exchanges for the state by exporting more commodities that had established their market abroad.

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CSO: 4006/167

INDUSTRY

STATE PLANNING COMMISSION STATISTICS ON PROJECTS

OW211440 Beijing XINHUA in English 1317 GMT 21 Nov 86

[Text] Beijing, November 21 (XINHUA)--About one tenth of the major projects imported during 1981-1985 have been put into operation, according to the State Planning Commission.

The operation of these 127 major projects has greatly increased the production capacity of the following industries: power generating by 2,600 megawatts, coal washing by seven million tons, iron and steel by three million tons each, seamless tubes by 500,000 tons, cement by 3.05 million tons, standard boxes of plate glass by 3.82 million, and color kinescopes by 960,000.

Great increases have also been made in the production capacity of carbamide, aluminum electrolysis, polyester, synthetic leather and alkyl benzene.

Statistics show that China imported a total of 10,000 large, medium-sized and small projects during the Sixth Five-Year Plan period (1981-1985), using nearly ten billion U.S. dollars. Of these projects, 1,400 large and medium-sized projects are urgently needed in China's economic construction. By importing these projects some blanks in China's industrial production such as the manufacturing of ground satellite station facilities and the production of color kinescopes have already been filled.

In addition, a set of technical facilities has also been imported to equip 20 state-level laboratories and 30 major scientific research labs, including ones for genetic engineering, enzyme engineering and element organic chemistry.

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CSO: 4020/61

INDUSTRY

COMPANY ISSUES STOCK, INCREASES PRODUCTION

OW181026 Beijing XINHUA in English 0858 GMT 18 Nov 86

[Text] Beijing, November 18 (XINHUA)--An automobile company in Beijing has seen improved production figures after issuing shares last December, the BEIJING DAILY reported today.

"Without a single cent of state money, the Beijing Station Wagon Limited Company purchased advanced equipment worth 23 million yuan (6.2 million U.S. dollars) and produced 25 models of automobiles in one year," the paper said.

Originally, the company was established on the basis of a collectively run automobile factory which had a capital of only nine million yuan (2.4 million U.S. dollars). By selling shares to other enterprises and the company's employees, the company's total capital has increased to 38 million yuan (10.3 million U.S. dollars).

The paper said 2.7 percent of the shares were bought by more than half of the company's employees, and as a result, workers became much more conscious about the ups and downs of the company. They offered 104 proposals which helped save 50 tons of steel and disposed of stockpiled goods worth 1.6 million yuan (432,000 U.S. dollars) for the company.

The company has also set up four branch factories to produce chassis, spare parts and automobile interiors to meet the needs of the domestic market.

"The company's automobile output, output value, sales and profits between January and October all increased by seven percent compared with last year," the report said.

The Nanjiao farm in the city's southern suburbs, one of the company's shareholders, offered its land as its investment which made it possible to expand production, the paper said.

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CSO: 4020/61

INDUSTRY

SHANGHAI RESUMES INDUSTRIAL OUTPUT GROWTH

OW211243 Beijing XINHUA in English 0843 GMT 21 Nov 86

[Text] Beijing, 21 November (XINHUA)--Shanghai has resumed its steady growth of industrial output after experiencing a slack season early this year, the PEOPLE'S DAILY reported today.

It realized an industrial output value of 71.2 billion yuan (about 19.2 billion U.S. dollars) by the end of October and fulfilled 90 percent of its export quota for this year.

The paper said that the city failed to foresee the changes in domestic and international market needs while drawing up this year's development plan. Also influenced by the insufficient supply of raw materials and energy, the city's industrial growth was increasing at a rate of only 1.9 percent during the first six months, the paper reported.

To tackle the new problems, the industrial departments readjusted the structure of industry by reducing the manufacture of stockpiled goods and expanded export-oriented production to improve efficiency.

Production of 39 kinds of goods including ordinary garments, matches and black-and-white TV sets made by neighborhood factories was reduced. And production of bicycles, electric apparatus, beer and raw materials increased by 10 percent.

More color TV sets, twin-tub washing machines, double-door refrigerators and bicycles of new designs were produced.

From January to September, exports to the Soviet Union, east Europe and Cuba all increased by more than half.

Localization of electronic household appliances is another major step. Now the city can produce 83.8 percent of the parts needed for locally made 14-inch color TV sets. It is estimated that local factories spend one-third less foreign exchange on importing components of TV sets and tape recorders than last year, the paper said.

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CSO: 4006/64

INDUSTRY

COUNTRY TRIES TO STIMULATE STEEL PRODUCTION

HK030442 Beijing CHINA DAILY in English 3 Dec 86 p 2

[Article by Zhou Dongfa]

[Text] China's steel market will next year see reduced state allocations in an effort to stimulate production outside state quota limits and thus curb steel imports, according to an official of the Ministry of Metallurgical Industry's Steel Products Processing Department.

Since the State Council reduced the amount of steel allocated to enterprises in 1984, and allowed prices for steel made outside the quotas to float at a maximum rate of 20 percent above the fixed price, the domestic steel market gradually overcame an acute shortage and showed some sign of improvement.

Last year, the state lifted its strict control of the price of above-quota steel, with restrictions aimed at curbing speculation that eliminated middlemen, an official of the department said.

The relaxation in state control brought about a general improvement in the steel market this year, he said.

Next year, the state will further reduce the steel allocation to below this year's level, hopefully resulting in a larger total amount of steel entering the market to satisfy the demands of more customers, according to information supplied by the department.

Compared with this year, the amount of imported steel is expected to drop. Domestically-produced steel is expected to increase its market share to an estimated 79 percent over this year's 72.8 percent. Steel plants will emphasize production of steel plate, pipe, wire, strip, and some high quality products which now are in short supply or unavailable, according to the department.

A limitation will be imposed on the production of welded steel pipe and commonly-used section steel. Proper control on their production will help avoid large stockpiles of the products.

This year, the state reduced investment in plant building and equipment. The reduction left an ample supply of steel products for building construction and good sales of steel products used in production. As the national stockpile grows, the supply of steel products next year for building will increase to a level of sufficiency, according to the department.

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CSO: 4020/61

INDUSTRY

BRIEFS

FOODSTUFF PROCESSING INDUSTRY--Beijing, November 30 (XINHUA)--China's foodstuff processing industry is expected to generate more than 100 billion yuan (about 27 billion U.S. dollars) in terms of output value this year, according to the country's national newspaper ECONOMIC DAILY today. It is one of the best years for the industry since the People's Republic was founded in 1949, the paper said. Big increases have been registered for beer, soft drinks and dairy products that are badly needed in the domestic market, the daily added. The paper attributed the growth of the foodstuff processing industry to the preferential policy measures the government has taken since 1984 with regard to technology upgrading, loans, taxes and raw materials supply for the sector. These policy measures have helped all the 24 branches of the industry grow, the paper said. [Text] [Beijing XINHUA in English 0223 GMT 30 Nov 86 OW] /6662

MAJOR EQUIPMENT MANUFACTURING DEVELOPED--Beijing, November 29 (XINHUA)--China is now developing 12 complete sets of major equipment, the ECONOMIC DAILY reported today. One is a urea plant with an annual capacity of 520,000 tons, which has passed state certification tests. With 80 percent of the parts manufactured in China, it is up to the latest world standards, the paper said. All key components for an electron-positron collider to be installed in Beijing have been manufactured, and a continuous cold rolling mill for the Baoshan steel works in Shanghai is expected to be completed this year. Other items include a large strip coal mine, a large nuclear power station, a super-high voltage power sub-station, a 300,000-ton ethylene plant and a large coal chemical plant. [Text] [Beijing XINHUA in English 0827 GMT 29 Nov 86 OW] /6662

FOREIGN CAPITAL USED IN COAL INDUSTRY--Beijing, November 29 (XINHUA)--China will use more foreign capital to build and expand coal mines during the Seventh Five-Year Plan (1986-1990), according to the Coal Industry Ministry. The Kailuan coal mines in Hebei Province and Shandong's Yanzhou mine will use a World Bank loan to expand their annual mining capacity by 10 million tons. The Jungar strip mine in the Inner Mongolia Autonomous Region and the Gujiaodongqu mine in Shanxi Province will use one billion U.S. dollars, the second part of an energy loan provided by Japan, to raise output to 12 and 4 million tons, respectively. In addition, China will also use a loan provided by the Italian Government to build some new mines and related facilities.

According to an official from the ministry, "The Chinese coal industry will use more foreign capital towards those mines with the potential to achieve better economic results." He also disclosed, "The ministry will also use foreign capital to construct coal-fired power plants at the mines." During the Sixth Five-Year Plan (1981-1985), China used foreign investment totalling 1.5 billion U.S. dollars to build 12 large-scale modern shaft and strip mines. [Text] [Beijing XINHUA in English 0720 GMT 29 Nov 86 OW] /6662

INCREASED LIGHT INDUSTRY PRODUCTS--Beijing, November 30 (XINHUA)--China developed 3,500 new varieties of light industrial products in January-October this year and 65 percent of them have been put into production, a senior Chinese official said here Saturday. Kang Zhonglun, vice-minister of light industry, said that the figures were based on a survey of 18 provinces and municipalities and he added that 20 percent of the country's light industrial products will be upgraded by the end of this year, a requirement set by the state. Speaking at a national gathering to introduce new kinds of light industrial products developed, the vice-minister said that manufacturers of such products now also stress product varieties instead of output value and quality only in the past. During the Sixth Five-Year Plan Period (1981-1985), the country's light industrial goods producers added more than 5,000 new kinds of products every year, and more than 1,100 won state prizes for their quality, he noted. [Text] [Beijing XINHUA in English 0634 GMT 30 Nov 86 OW]/6662

HEILONGJIANG MACHINE-BUILDING INDUSTRY--Heilongjiang Province has witnessed sustained and steady growth in the machine-building industry. From January to October, output value increased by 8.43 percent over the corresponding period of last year and profits increased by 7.4 percent. This year, the province has done a good job in fulfilling the machine-building industrial export task. In the first 9 months, the annual export target was fulfilled by 78 percent. [Summary] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 13 Nov 86 SK] /12232

NEI MONGGOL TEXTILE INDUSTRY--The Nei Monggol Autonomous Region's textile industrial output has increased steadily. In the first 10 months of this year, the output value realized by the region's textile industrial enterprises reached 658.5 million yuan, an increase of 5.85 percent over the corresponding period of last year. [Summary] [Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 17 Nov 86 SK] /12232

CSO: 4006/167

SMALL-SCALE ENTERPRISES

PROFIT DISTRIBUTION IN TOWNSHIP ENTERPRISES

Beijing JINGJIGONGZUO TONGXUN [ECONOMIC WORK BULLETIN] in Chinese No 10, 10 May 86 p 21

[Text] In the process of developing township and town enterprises, Simen Township in Yuyaoshi, Zhejiang Province, correctly handles the proportionate relations between accumulation and consumption and continuously improves the distribution of the after-tax profits of enterprises, thereby effectively increasing the economic capacity of township and town enterprises for self-development.

(I)

In the past, township leaders believed that since Simen is the largest rural township in Yuyaoshi, where expenditures on small market-town development and other forms of social spending are fairly high, enterprises should be required to turn over all their after-tax profits to the government to satisfy township needs; enterprise production was a secondary consideration. With no accumulation, enterprises became dependent on government loans and production registered sluggish growth. In late 1978, there were only eight enterprises at the township and village levels, with a combined output value of over 3.5 million yuan.

Since 1979, the leaders have taken the first steps toward adjusting the distribution of after-tax profits by setting the ratio between what an enterprise could keep for expanded reproduction and what it must turn over to the township at 45 percent to 55 percent. While this was an improvement upon the past, enterprises' capacity for expanded reproduction remained fragile. In 1980, the output value of township and village enterprises was still a low 4.33 million yuan.

For this reason, township leaders reviewed their experience in earnest and realized that enterprises have developed slowly mainly because of the illogical proportionate relations between accumulation and consumption and that enterprise accumulation must be increased if they were to grow faster. Again the township leaders adjusted the distribution ratio by introducing a "double 3-7" system, under which enterprises are allowed to keep 70 percent of after-tax profits for expanded reproduction and turn over 30 percent to the

township industry office. The office would retain 70 percent of what it receives from the enterprises, while turning over the remaining 30 percent to the township government to finance small market-town construction and cover other social expenditures. It was also stipulated that tax cuts or exemptions will be kept in full by the enterprise for expanded reproduction. These funds are not to be distributed.

(2)

After giving enterprises a larger share of their after-tax profits, Simen Township put together a fund management and utilization system to ensure that limited funds are used flexibly and effectively.

First, accumulation is to be used in a planned way. Regulations require an enterprise to prepare early every year a budget specifying how much of the profits retained from the preceding year are to be earmarked for technological transformation, equipment replacement, expertise development, and working funds replenishment so that its limited funds are put to the best use. Second, when an enterprise wants to build a project requiring substantial investments, it must first apply to the township industry office and can go ahead with it only with the latter's permission. This is to ensure that the enterprise's scale of investment is in line with its level of accumulation. Third, enterprises, both old and new, must pay for investment in fixed assets and working funds. In the case of fixed assets, the enterprise is to submit to the township industry office every quarter an amount equivalent to 0.18 percent of the original value of the fixed assets. This sum is to come from the depreciation charge on the fixed assets. In the case of working funds, payment takes the form of interest on loans at the monthly rate of 0.42 percent. Fourth, under the organization of the township industry office, the accountants in charge at enterprises check one another's financial work semi-annually to examine fund management and utilization and improve the financial management standard of enterprises. In addition, township leaders firmly take realities as their point of departure as far as the development of small market-towns and other social spending are concerned; they live within their means and do not apportion expenses among enterprises arbitrarily.

(3)

In the 4 years since it came into effect in Simen Township, the "double 3-7" profit distribution system has been remarkably successful.

First, it has built up the economic muscle of township and town enterprises. From January through October last year, they completed over 14.7 million yuan worth of output and earned 1.4 million yuan in profits, up 58 percent and 49 percent, respectively, over the same period a year ago.

Second, it has accelerated enterprise technological transformation and equipment replacement; 63 percent of the fixed assets in all enterprises in the township were acquired over the past 4 years.

Third, it has fueled the development of new products by enterprises. Over the last 2 years, township enterprises have successively imported and developed 14 new products, of which 2 filled a technical gap in the nation.

Fourth, it has reduced government loans. Many enterprises rely on their own accumulation for the funds required by regular production.

SMALL-SCALE ENTERPRISES

PAPER ON ENTERPRISE PROFIT DISTRIBUTION

HK260437 Beijing NONGMIN RIBAO in Chinese 13 Nov 86 p 2

[Article by Handan City CPC Committee and the Rural Policy Research Office of Hebei Provincial CPC Committee: "Serious Problems of Small Retained Profits and Inadequate Reserve Strength in Enterprises--Investigation on Profit Distribution in Town and Township Enterprises"--passage within slant-lines published in boldface]

[Text] Recently, we organized 76 cadres to carry out an on-the-spot investigation into profit distribution in 97 collective enterprises (73 town and township enterprises, and 24 village-run enterprises) in the 10 townships (towns) and 10 villages under the jurisdiction of Handan City. The result of the investigation is as follows:

I.

The problems of exacting a large percentage of profit, collecting excessive charges, apportioning numerous expenses and allowing the town and township enterprises to retain little profit, and the problem that town and township enterprises lack reserve strength, not only generally exist but are also very serious.

/1. Excessive percentage of profit is exacted from township (town) and village-run enterprises and spent on non-production./ According to the statistics collected during the investigation, in the first half of this year these enterprises realized after-tax profits of 2.668 million yuan, 49 percent of which was exacted by the township (town) and village authorities. Only 18 percent of the profit exacted by the township (town) and village authorities was returned to the enterprises. However, 28 percent of the profit was spent on non-production.

When the enterprises' after-tax profit was exacted by the township or village authorities, a lot of enterprises did not have the money to buy new equipment and also had to borrow loans to buy raw materials and other essentials for their production.

/2. Some departments collected excessive charges from and apportioned numerous expenses to the enterprises so that the enterprises' burden was too heavy./ The investigation showed that in the first half of this year, these enterprises paid a total of 1.047 million yuan in various charges and apportionments, which accounted for 23 percent of their sales profits. The enterprises paid a total of 0.325 million yuan in unreasonable charges, accounting for 7.1 percent of their sales profit.

/3. The enterprises retained an excessively high percentage of their profit for staff and workers' bonuses and welfare. Some enterprises even divided all their profit among the staff and workers./ In the first half of this year, the enterprises retained a profit of 1.354 million yuan, of which 0.485 million yuan was spent on staff and workers' bonuses and welfare. This accounted for 36 percent of the total profit retained by these enterprises. Some 0.587 million yuan was spent on funds for production development, accounting for 43 percent of total profit retained.

The above mentioned problems were caused by the fact that most of these enterprises had not broken down their expenditures sufficiently before paying taxes to the state. Some of the enterprises had not broken down their expenditures at all, some had not completely broken down all their items of expenditure, and others had failed to break down a sufficient amount of their operational expenditure before paying taxes to the state. The 97 enterprises ought to have broken down a total expenditure of 9.645 million yuan last year. However, they only broke down 5.542 million yuan, 4.103 million yuan less than the permitted figure. The amount of expenditure these enterprises had failed to break down accounted for 43 percent of total expenditure allowed last year. As a result, these enterprises paid additional income tax of 0.404 million yuan to the state. The investigation of the 18 enterprises in Wuan County showed that not one of them had completely broken down all items of their expenditure according to the rules.

II.

The causes of the above mentioned problems are:

1. Quite a lot of townships (towns) and villages have not yet regarded town and township collective enterprises as economic entities which assume full responsibility for their own profits and losses with independent business accounting. They still regard them as sideline production stalls and small money-boxes, from which they can draw money whenever they need and whatever amount they wish. Some township and village cadres do not have a long-term plan for the development of township and village enterprises and recklessly exact money from these enterprises regardless of an enterprise's actual capability.
2. There are no unified regulations governing the collective of charges from town and township enterprises and thus towns and townships have sought every means they could to exact money from the town and township enterprises.

When strengthening the administration, some departments and units do not make any effort to improve their services to the town and township enterprises. They merely focus their efforts on collecting more charges from the town and township enterprises. Some departments and units even invent all kinds of names as pretexts for collecting exorbitant taxes from the town and township enterprises. If the enterprises fail to pay these taxes, the departments or units concerned will demand payment through the banks or even freeze the salaries of the enterprises' staff and workers.

3. The personnel of many town and township enterprises do not understand the categories of taxes, the tax rate, or tax law. Thus, they do not know clearly which expenditure should be broken down, how much should be broken down, and according to what criteria it should be broken down, before paying taxes. As a result, they have not only paid the taxes required but also taxes they should not have paid. Of course, there are some enterprises which have been carrying out production without considering the cost, carrying out operation without business accounting, keeping only a day-to-day account and not keeping data concerning items and expenditure which should be broken down. Decisions in these enterprises have been taken by simply "clapping the forehead." This is also the main cause of the "three more and one less" situation.

III.

In order to strengthen the town and township enterprises' capability for self-development, we must rationally distribute their after-tax profit while relaxing tax policy. At present, we should concentrate our efforts mainly on solving the following problems:

/Any township (town) and village-run collective enterprise is a cooperative economic organization under the peasant collective ownership system and therefore is a legal person. Enterprises at township (town) and village levels must be regarded as economic entities which assume full responsibility for their own profits and losses with independent business accounting, so that consultation must be held when extracting the profit, and the profit must be extracted in differing ways according to their different contract systems and incomes./ Township (town) and village authorities should not extract profit from enterprises which have not paid off loans borrowed to purchase capital construction equipment. There are only two kinds of profit that township (town) and village authorities can extract: 1) Ten percent of before-tax profit can be extracted to cover subsidiary social expenditure; 2. A maximum of 20 percent of after-tax profit can be extracted mainly to cover expenses incurred in subsidizing agriculture by industry, building and extending enterprises, carrying out technological transformation and replenishing mobile funds. In future, idle funds extracted from enterprises to cover expenses incurred in building new enterprises and extending other enterprises must be treated as money paid for enterprise shares, and should eventually participate in bonus distribution or receive interest according to the relevant bank savings rate.

/2. The main function of relevant departments exercising control over town and township enterprises, should be to provide professional services, and not collect charges./ These services must be provided gratis. If it is indeed necessary to collect charges, we should adhere to the principle of collecting small charges and gaining little profit, consulting the enterprises concerned for this purpose. The standard of charges must be submitted to the city government for examination and approval. Currently, all regulations regarding charges and fines promulgated by various departments at various levels are considered invalid if they have not been approved by the city government.

The plans to develop welfare undertakings and employ non-staff personnel made by various counties (prefectures) and townships must be approved by the higher authorities concerned, and brought into line with local financial plans and the financial plans of the departments concerned. No one is allowed to collect charges and funds or draw personnel from enterprises without authorization. No one is allowed to practice egalitarianism and indiscriminately transfer an enterprise's funds, property and equipment. Enterprises have the right to refuse paying illegal apportionings, charges, and fines and have the right to report and expose such practices. The relevant departments must seriously investigate and deal with such cases.

/3. Not less than 70 percent of profit retained by enterprises must be spent on updating equipment, technological transformation, production expansion, and replenishing mobile funds. Not more than 30 percent of profit retained should be spent on collective welfare and awards./ The distribution standard growth rate for staff and workers must not exceed the growth rate for profit and taxes. Production funds must not be turned into consumption funds and must not be distributed and divided up among staff and workers. Enterprises involved in sharing above-quota profits must draw out part of their share to be used as production development funds. Enterprises which fail to fulfill their profit quotas must not be allowed to draw bonuses.

/4. Professional training for enterprise directors (managers) and accountants should be carried out in a planned way./ We must study the relevant state policies and laws and understand the relevant tax laws, tax rates, and charge standards. We should also establish and perfect all kinds of accounts according to the number of accounts required by the system, do a good job in economic accounting, and strictly abide by the accounting examination and approval system.

/5. All country (prefectural) party committees and governments must be instructed to organize their banks and rural work, town and township enterprise, industrial and commercial, tax, auditing, discipline inspection departments, and so on, to carry out a general examination of profit distribution in town and township collective enterprises in the fourth quarter of this year./ In principle, all types of charges which are indiscriminately apportioned, all charges which are recklessly collected, all fines made without authorization, all extra taxes not levied in accordance with the tax law, and all funds and property which have been indiscriminately transferred, must be returned to the enterprises concerned. Those who commit serious crimes or mistakes in this respect must be dealt with strictly.

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CSO: 4006/171

SMALL-SCALE ENTERPRISES

RENMIN RIBAO ON INDIVIDUALLY OPERATED RURAL ENTERPRISES

HK030605 Beijing RENMIN RIBAO in Chinese 29 Nov 86 p 2

[Article by reporter Ling Zhijun (0407 1807 6511): "Where the Potential Lies--Commenting on the Emerging Individually Operated Rural Enterprises"]

[Excerpts] In the past 2 years, the growth of town and township enterprises has been quite quick, especially individually and jointly operated enterprises among them. Noteworthy examples that may be cited are Wenzhou of south Zhejiang, Gengche of north Jiangsu, and Fuyang of northwest Anhui. Many people visiting these places have said in wonder: If the output value of individually operated enterprises in Wenzhou accounting for more than one-half of the whole city's industrial output value is attributable to an industrial and commercial base of up to 100 years' standing, what is the explanation for the performance of Fuyang? How can an obviously typical remote, backward place have suddenly come to the fore with 170,000 individually operated enterprise chalking up an annual output value of 1.3 billion yuan?

It seems that there is still great adaptability for individually operated enterprises in most rural areas. In areas with different economic levels, they can grow and thrive, enabling nonagricultural industries to develop quickly.

The most fundamental cause is a quiet shift in the movement of the fast growing material accumulation in the countryside.

Until the end of the 1970's, our countryside's material accumulation consistently "leaned to the one side" of the collective. Eloquent proof is provided by the following: Of the total agricultural output value in 1979, output value of collectively owned enterprises accounted for 79.2 percent and that of household sideline occupations only 17 percent.

The change started in the early 1980's. Peasants' personal deposits in credit cooperatives grew at an extremely quick pace, while collective deposits dropped from year to year. In 3 years, the collective portion of the total value of productive fixed assets dropped by more than 10 billion yuan, while the part owned by the peasants themselves increased more than 20 billion yuan. In 1985, what the peasants personally got totaled more than 190 billion yuan, accounting for over 90 percent of net agricultural income. What the collective got was only 8-plus billion yuan, accounting for 4 percent of net agricultural income. The material accumulation had surprisingly "leaned to the one side" of peasant individuals.

Strangely, the greater the lack of money the more the need to part with it. As data shows, a worker committed to an individually operated enterprise calls for an average investment of only several hundred yuan, while his joining a collective enterprise requires more than 2,000 yuan. If 8 million workers are placed in collective enterprises every year, about 20 billion yuan would be required. All the money that the collective has would not be enough for that. Therefore, there has appeared the practice of raising money to operate factories. Actually, quite a large number of collective enterprises has now absorbed people together with their money. This is what is called "combining investment with work" or "joining a factory as a shareholder." This is of course not a bad idea. But the peasants cannot help thinking this way: Since you can borrow money from me to arrange work for me, why can I not make arrangements for myself?

In developing town and township enterprises, the potential lies in myriads of households. It now seems there is no doubt about this. This of course does not mean that cadres are no use. Everyone knows that the main reason for Wenzhou's economic takeoff is to let capable people, and not cadres, run factories. But if cadres had not supported capable people in making the most of their "abilities," Wenzhou's economy would definitely not be such a success.

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CSO: 4006/171

CONSTRUCTION

COUNTRY TO DOUBLE INVESTMENT IN CHANG JIANG PROJECTS

HK190244 Beijing CHINA DAILY in English 19 Nov 86 p 2

[Text] China is to invest 1.5 billion yuan (\$400 million) in launching 41 key projects along the Yangtze River in the next five years, the newspaper ECONOMIC INFORMATION has reported.

This almost doubles the amount of state investment in projects along the river during the past five years, the paper said.

Most of the money will go into the expansion and construction of ports along the river, the largest in China. The berths, capable of receiving 5,000-ton sea-going vessels, have been planned for the Wuhan and Huangshi ports in Hubei Province, Jiujiang Port in Jiangxi Province and Wuhu Port in Anhui Province.

Also planned are 100 medium-sized and small berths with the capacity to handle 40 million tons of cargo a year.

Moreover, 34 dangerous shoals, and underwater rocks totalling 1.36 million cubic metres, will be removed, five water channels improved, and eight sunken ships salvaged.

New telecommunications facilities will be installed along the river, the paper said. They will include a 1,748-kilometre micro-wave digital telecommunications line from Yichang City in Hubei Province to Shanghai, 21 VHF coastal stations, and four telecommunications centres.

To improve land services, waiting rooms, sea safety control stations and storehouses will be built or expanded. A university and a technical school will also be set up to train staff working on the river, the paper said.

The overseas edition of PEOPLE'S DAILY also reported that China is to build 28 power stations to serve coastal ports.

These stations which will be completed by 1990, will be able to generate a total of 120 billion kilowatt-hours of electricity a year, the paper said.

Located in more than 10 coastal cities open to foreign investment, these stations are mainly intended to ease electricity shortages now impeding the economic development of these cities, the paper said.

Shanghai, the country's largest industrial city, is short of about 2 billion kilowatt-hours of electricity this year, the paper said. By 1990, the shortage will double.

To solve this problem, a power station with an installed capacity of 1.2 million kilowatts is now under construction. The first batch of the station's generators will go into operation next year.

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CSO: 4020/61

CONSTRUCTION

PLANS TO ACCELERATE URBAN CONSTRUCTION

OW252059 Beijing XINHUA in English 1549 GMT 25 Nov 86

[Text] Beijing, November 25 (XINHUA)--In the next five years, the focus of urban construction in China will be building water supply mains, gas and central heating facilities and transportation and telecommunication lines.

Ye Rutang, minister of urban and rural construction and environmental protection, proposed this plan at the national working conference on urban construction which opened here today.

According to Ye, the following five years will witness an increase of 16.7 million cubic meters in the capacity of daily water supply, the upgrading of 6,000 kilometers of water supply lines and the construction of 30 large projects related to water supply.

In addition, 14 larger natural gas projects will be implemented to bring daily gas supply capacity to 9 million cubic meters, thus increasing the gas availability from 22.4 percent to more than 40 percent of the urban households, and converting major cities like Beijing, Tianjin and Shanghai to natural gas users.

Ye, 46, China's youngest minister, said: "China also plans to build new roads totalling 14,000 kilometers, and to add 30,000 public buses, thus increasing the average road space per capita from three square meters to four, and the bus number per 10,000 from four to five."

In terms of telecommunications, up to 3 million telephone lines will be added in the cities, and long distance calls between coastal cities open to foreign business and economically developed areas will be automated or semi-automated, he said.

The minister pointed out that economic development will inevitably bring increases in the number of cities and towns, and population increases. He quoted experts as predicting that five years in the future, China will have more than 100 new cities and over 2,500 new towns, and the urban non-agricultural population will grow from the present 175 million to 220 million.

Ye said, "Despite encouraging achievements in the past few years, urban construction is far from satisfactory and production and living facilities are still rather backward in some cities."

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CSO: 4020/61

CONSTRUCTION

BEIJING RADIO COMMENTS ON URBAN CONSTRUCTION

OW260203 Beijing Domestic Service in Mandarin 1200 GMT 24 Nov 86

[Station commentator's article: "Strive for the Coordinated Development of Both Urban and Economic Construction"]

[Text] For years, mistakes have been made in our country's economic construction. One such mistake is that people lack a clear idea of what a city is. In the ongoing urban economic reform, the consequences caused by this mistake have been manifesting themselves more and more clearly. In planning for the distribution of productive forces, people in many localities are fond of building big industrial projects in cities. But they neglect the construction of the urban infrastructure necessary for such industrial projects. As a result, urban construction has lagged behind economic construction for a long time, thus hampering further economic development.

Urban construction has been neglected for years. As a result, inadequate water supplies, congested traffic, and the deterioration of environmental quality have now become very serious problems in many big and medium-sized cities. Residents in such cities are also seriously troubled by inadequate housing and by backward service facilities in production and daily life. All this has weakened the leading role played by cities as economic, political, cultural, scientific, and technological centers.

In the drive for economic and social development, all localities should give priority to urban construction. It should be understood that the construction of the urban infrastructure, including water supplies, sewerage, gas and heat supplies; the building of roads and bridges; and public transit, are not only indispensable material conditions for urban residents in daily life but are also basic conditions for the development of the national economy. Only when we really do a good job in urban construction can we develop production steadily. This is an objective law, independent of man's will.

It should also be understood that the main duty of a city government and its mayor is to undertake urban construction. It is hoped that all city governments and mayors, proceeding from urban construction and bringing their cities' role into full play, will also plan, construct, and manage their cities at the same time. Experience shows that a mayor who can coordinate the development of both urban and economic construction is a good one. And such a mayor surely is most warmly welcomed by city residents.

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CSO: 4006/167

CONSTRUCTION

BRIEFS

CONSTRUCTION 'NONESSENTIAL' PROJECTS HALTED--Beijing, November 18 (XINHUA)--The construction of 1,200 projects has been stopped or postponed to avoid unnecessary drains on scarce national resources, a senior official said Monday. Gan Zhijian, deputy director of the State Planning Commission, said 7.75 billion yuan in investment has been saved by stopping or postponing the construction of nonessential projects. Some 70 percent of these projects are non-productive items, including 60 big hotels or office buildings, costing at least five million yuan each. Gan said all the projects under construction have been checked according to a policy of the State Council, to concentrate the limited investment on the most important construction projects. Most of the retrenchment came in local projects outside the state plan, he said.

[Text] [Beijing XINHUA in English 0851 GMT 18 Nov 86 OW] /6662

XIZANG AIDS CONSTRUCTION PROJECTS--Lhasa, 21 November (XINHUA)--Projects built in Tibet with financial support from the central government have promoted local economic development, according to a local official. The 40 projects constructed in 1984 with funding, building materials and equipment provided in part by the central government include power stations, hotels, schools, hospitals, cultural centers and small industrial enterprises. Lhasa, the political, economic and cultural center of the Tibet Autonomous Region, didn't have an underground water supply and drainage system before the projects were completed. Today, this ancient city has a 30-kilometer-long water supply and drainage network, and has begun to solve the problem of providing drinking water to its residents. In its urban construction project, the city had built 20 kilometers of roads, and the construction of eight hotels has promoted tourism in the region, the official said. The Lhasa Hotel accommodates about 1,000 foreign visitors every month during the July to September peak season. Four newly-built hospitals have further improved health care, according to the local official. [Text] [Beijing XINHUA in English 0715 GMT 21 Nov 86 OW] /12232

CSO: 4006/64

DOMESTIC TRADE

NEI MONGGOL: SELF-EMPLOYED OUTSIDERS DO GOOD BUSINESS

OW191316 Beijing XINHUA in English 0726 GMT 19 Nov 86

["News feature: Self-Employed Outsiders Make Way to Remote Mongolian Community"
--XINHUA headline]

[Text] Huhhot, 19 November (XINHUA)--The Alxa League (Prefecture), a sparsely populated area located in the inner Mongolia Autonomous Region, covers an area twice as large as France.

However, sometimes a couple of self-employed peddlars carrying a trunk of tinted lenses or a load of cotton quilts can be seen on the boundless Gobi Desert.

Their delicate features give away the fact that these peddlars come from south China, mainly Jiangsu and Zhejiang Provinces. In this deserted area they usually have to walk several kilometers from one yurt to another selling goods or canvassing business orders.

"We have found the herdsmen here are simple and sincere. If you are really skillful you can make a decent living," said Liu Sating, who is the owner of a small tailoring store in Altxa Left Banner (County).

The 25-year-old came 5 years ago from Leqing County in Zhejiang Province, more than 2,000 km away. In the first four years, he earned money by doing carpentry, while his wife mended shoes.

"We miss our hometown in the warm and green south very much," the wife sighed, "but we can earn a big sum of money here more easily than in the south, so we will not go home until we have earned enough."

In recent years, herdsmen have benefited from the new rural policy, which allows them a free rein with the horses, sheep, and camels contracted to them. With money in hand, they are now eager to buy goods which used to be thought of as impossibly expensive luxuries.

In Ejin Banner, 110 mototcycles, 181 TV sets, 392 tape recorders, 50,000 liters of alcohol and 60,000 liters of beer were sold to its 10,000 people last year.

Now these former nomads no longer move about, but have settled down in wood and brick houses. But their homes are usually far away from towns. The distance from a banner capital to a league capital may be as much as 600 km.

"Bringing big articles back home from far-away towns is really a headache, even if we can afford them," said Sanbatu, "which public bus would be willing to carry double beds, cabinets, or sofas to our houses?"

"So every family here welcomes the craftsmen from south China with open arms," the elderly herdsman said, pointing to his fashionable cabinet, sofa and double bed.

TV sets, watches, and motorcycles are not rare in Mongolian yurts but there is a problem of repairs.

Fu Jun and Fu Qing, brothers from the northeast have a brisk business in Bayanhot town, where there are nearly 2,000 scooters and motorcycles. "We repair some 100 motorcycles a month," they said which would work out at a monthly income of at least 200 yuan.

There are 3,291 such individual businesses in Alxa Banner, and the local government has exempted them from taxation, and given them big help to encourage business.

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CSO: 4006/64

DOMESTIC TRADE

BRIEFS

SHAANXI: ENTREPRENEURS SUCCESSES, SHORTCOMINGS--According to XIAN WANBAO, in the first half of this year the 180,000 individual industrial and commercial entrepreneurs in Xian City did over 200 million yuan work worth of business, thereby playing a major role in making up for shortages in the people's daily life and affording them various conveniences. However, many of these entrepreneurs have a weak concept of professional ethics and the legal system. Problems such as tax evasion, selling inferior goods, and short-measuring are more or less universal. There are also problems of illegal operations, beating up customers, and protecting lawless elements. According to an initial survey, some 57 percent of these entrepreneurs have evaded tax payments, and two-thirds have gone in for short-measuring. Apart from the problems of these people themselves, the reason for their illegal operations lies largely in ineffective supervision by the industrial and commercial administrative departments. [Text] [Xian Shaanxi Provincial Service in Mandarin 0200 GMT 4 Dec 86 HK] /6662

CSO: 4006/172

FOREIGN TRADE AND INVESTMENT

JOINT VENTURE JEEP COMPANY TO START EXPORTS

HK041042 Beijing CHINA DAILY in English 4 Dec 86 p 2

[Article by staff reporter]

[Text] The Beijing Jeep Corporation, the first Sino-U.S. joint venture in the auto industry, will start exporting Beijing Jeep Cherokees this month after surmounting financial difficulties earlier this year.

The corporation will make its first shipment of Beijing Jeep Cherokees--31 of them--to five countries and has received domestic orders for all 2,000 planned for production next year, Don St Pierre, chairman of the corporation, told a press conference in Beijing on Tuesday.

Since September 1985, the corporation has produced and sold more than 1,700 Cherokees in China. Last month, the American partner, American Motors Corp remitted to China for the first time about \$300,000 in dividends.

Thanks to help from the Chinese Government, said St Pierre, the corporation has overcome its major financial problem, a shortage of foreign exchange. "We have had good profits and will continue to do so," he added.

St Pierre said that the investment environment is improving dramatically in China and the 22 articles recently announced by the State Council to attract more foreign capital are evidence of it.

"There is no easy way to do business here, but if you persist, you will get the assistance you need," he said. The important thing is to have good products, good programs and, last but not least, perseverance, he said.

"It is very difficult to get through the bureaucracy," he said, "and it requires patience and persistence to fight through it." St Pierre said more articles will be issued next year to further improve the environment for foreign investment. The present 22 articles did not go far enough, he said.

The 15th article, concerning the right of autonomy for joint ventures, is quite important, he said. "We cannot afford to spend much time getting approval" from higher authorities, he said.

Concerning the jeep venture, export is just beginning, St Pierre said. "Before you can expect large export, you should do significant localization" of jeep parts to cut production costs. "We cannot expect very large volumes of exports in the next few years because our products are too expensive, not competitive with Japan-made jeeps, as we have to import parts from the United States," he said.

From 1986 to 1991, the press conference was told, the corporation plans to invest a total of 397 million yuan (\$108 million) in technical updating and development of new products. By 1990, about 84 percent of jeep parts will be produced locally, compared with 12.4 percent in 1986, he said.

Total export value has been planned at \$70 million for the five-year period ending in 1990, during which time the corporation will expect to export 700 Beijing Jeep Cherokees and 5,800 China-designed jeeps.

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CSO: 4020/66

FOREIGN TRADE AND INVESTMENT

MINISTER URGES FOREIGN FIRMS' COOPERATION

OW211202 Beijing XINHUA in English 1112 GMT 21 Oct 86

[Text] Beijing, 21 Oct (XINHUA)--China's minister of light industry expressed hope for strengthened cooperation between Chinese and foreign enterprises in developing the country's light industry.

During Minister Yang Bo's meeting with more than 100 foreign entrepreneurs attending the current sixth business leaders symposium here today, he said, "the technology of most of the 72,000 enterprises and factories under the ministry is at the level of 1950s and 1960s."

"I hope more effective ways and concrete methods for further cooperation will be found during your discussions with Chinese counterparts," he told the foreign business leaders from 24 countries and regions.

"Light industry requires less investment than other trades and is quicker in recouping initial spending," Yang said, adding that he feels the prospect for cooperation in this field is bright.

"Food, clothing and durable consumer goods such as household electrical appliances are priority items for development over the next five years," he said.

According to Yang, China's light industry has enjoyed rapid development during the past five years owing to new economic policies adopted by the central government in the late 1970s encouraging the Chinese to become well-to-do as quickly as possible.

The industry's output has grown at an annual rate of 9 percent during the period, exceeding the planned target of a 7 percent increase. Statistics released by the ministry show contracts signed for technology and equipment imports from 1981 to 1985 involved U.S. \$2.71 billion, 4.6 times the total of the previous 31 years.

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CSO: 4020/66

FOREIGN TRADE AND INVESTMENT

BEIJING'S INTERNATIONAL TRADE EXPANDED AT SEMINAR

OW262001 Beijing XINHUA in English 1536 GMT 26 Nov 86

[Text] Beijing, November 26 (XINHUA)--A three-day international trade and economics seminar hosted more than 1,000 Chinese and foreign business people at the Beijing exhibition hall today.

The seminar offered 280 projects for negotiation which cover production in foodstuffs, electronics, building materials, light industry, machinery and agricultural products processing.

After several years of development, Beijing has trade relations with more than 130 countries and regions. Its foreign trade volume in 1985 totalled 640 million U.S. dollars, doubling the 1978 figure.

This year the volume is expected to reach 700 million U.S. dollars.

"The Beijing municipal government keeps the city wide open to foreign business people in an effort to carry out the basic state policy of opening to the outside world," Vice-Mayor Han Boping said at the opening ceremony of the seminar, the first ever held by the local government.

"Beijing also leads the country in absorbing foreign investment," said Yu Xiaosong, chairman of the municipal foreign economic relations and trade commission.

By the end of October, 1972 projects, worth a total of two billion U.S. dollars of foreign investment from 25 countries and regions, were approved by municipal authorities.

"Among the 72 enterprises now in operation, more than 90 percent are seeing profits and turning out market-oriented products," he said.

"We encourage economic cooperation with foreign firms," Yu said, "and we observe the quality and mutual benefit principle and try to create favorable conditions for overseas investors to make profits," he said.

A municipal joint office, headed by Vice-Mayor Han Boping and involving different department heads, has been set up to speed up the settlement of problems foreign invested enterprises face.

As an incentive, the government issued 24 Sino-foreign joint ventures in Beijing certificates which acknowledge them as export-oriented or technically advanced enterprises.

"To date, the Beijing foreign currency administration bureau has helped exchange foreign exchange totalling 20 million U.S. dollars for Chinese currency (renminbi) between joint ventures to suit different needs," Yu said.

The Beijing branch of the Bank of China began issuing foreign currency mortgages and now holds mortgages totalling 12.6 million yuan (3.4 million U.S. dollars) for six enterprises who were short of renminbi.

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CSO: 4020/62

FOREIGN TRADE AND INVESTMENT

TIES WITH DEVELOPING COUNTRIES ADVANCED

OW221416 Beijing XINHUA in English 1238 GMT 22 Nov 86

[Text] Beijing, November 22 (XINHUA)--China has so far established bilateral relations for technical cooperation with over 80 developing countries and regions, an official from the Ministry of Foreign Economic Relations and Trade said here today.

China has also developed multilateral technical cooperation with these countries in the past few years through United Nations organizations.

Wang Tiance, director of the international department of the ministry, said this in an interview with XINHUA on the eve of the opening of an intergovernmental programming exercise for technical cooperation among developing countries.

Representatives from 26 countries of the Asian-Pacific region, Latin America and the Caribbean are arriving here to attend the programming exercise, which will open November 24.

Wang Tiance said, over the past 30 years and more, China, as a socialist developing country, has provided other developing countries with over 1,000 complete sets of equipment, covering agricultural, iron and steel plant, oil refinery, power station, textile mill, sugar-processing mill, paper mill, harbor, telecommunications and hospital projects. More than 400,000 engineers and technical workers have been dispatched to the recipient countries for these projects.

Meanwhile, China has trained over 35,000 technicians and accepted about 3,000 students sent here from more than 70 countries.

On medical cooperation, Wang said, China has sent medical groups composed of 8,000 workers to over 40 countries and regions since 1963, and helped the recipient countries train over 10 million medical workers.

Since 1979, China has signed more than 2,800 contracts with nearly 90 developing countries on contracting engineering projects and provided labor services,

involving 5.1 billion U.S. dollars. About 170,000 Chinese engineers and workers have been dispatched for these technical cooperation projects, including the construction of highways, bridges, factories, houses and telephone projects.

In addition, China has invested in some developing countries and started joint ventures in cooperation with them.

Wang Tiance hoped to reach more cooperation agreements among developing countries at the programming exercise.

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FOREIGN TRADE AND INVESTMENT

COURT RULINGS UPHOLD FOREIGN INVESTMENTS

OW031241 Beijing XINHUA in English 0742 GMT 3 Dec 86

[Text] Tianjin, 3 Dec (XINHUA correspondents Cong Wenzi and Dou Heyi)--After the Tianjin municipal higher people's court made the final ruling on a suit involving a Sino-foreign joint venture on 30 October this year, Japanese general manager Makai Motoaki said, "Chinese judges are fair."

Five years ago, the China Otsuka Pharmaceutical Company, the first Sino-Japanese joint venture in China, signed a contract on renting a one-hectare plot with the villagers at Niutuo, on Tianjin's western outskirts.

The contract, approved by the western district government, stipulates that the villagers are "responsible for bringing the rented land back to cultivable conditions." The venture paid villagers 72,000 yuan (about U.S. \$19,000) as rent, as provided in the contract.

But in June last year, the villagers asked the venture to restore the plot and compensate for their losses, but met a flat refusal from the venture executives. Then the villagers brought a suit to the Tianjin intermediate court. The court made the ruling that the contract is valid. But the villagers protested and appealed to the higher court, which turned down the appeal and decided to uphold the first ruling.

This case serves as an example of how Tianjin's legal workers try to protect the legitimate interests of foreign investors.

A leading official of the Municipal Commission of Foreign Economic Relations and Trade said that it is intolerable to look on joint ventures as pieces of "fat meat" and bleed them. All kinds of businesses, whether they are Chinese businesses or Sino-foreign joint ventures, are "equal before the law," he added.

The Tianjin authorities have approved 170 joint ventures since China announced the policy of opening to the outside world in 1979--some 70 of them now operational.

The Tianjin lawyers' office is credited with the effort to protect the legitimate interests of foreign investors. Lawyers there have handled 20 cases in which the Chinese partners damaged the interests of foreign partners.

For example, a Tianjin firm was discussing two years ago with the Kobe Tianjin Business of Japan the establishment of a joint venture restaurant in Tianjin--the Kobe Restaurant. The Tainjin partner, in the contract it drafted, demanded relocation compensation from the Japanese partner in addition to land-use fees.

When examining the contract, lawyers Jiang Longxiang and Wang Dongmei, invited as legal advisers by both partners, found that the land-use fees already contained relocation subsidies and therefore it was wrong to charge the compensation. Later, the contract article was changed on their proposal.

Two years ago, the Tianjin tourist photo service launched a joint color film venture with the Heng Yuan Company of Hong Kong and each contributed 50 percent of the venture's investment. Under the original contract, the Tianjin partner would share profits on a 50-50 basis in the first three years of operation, and then take 60 percent.

"This violates article 4 of China's law on Sino-foreign joint ventures, which says that ventures' profits should be shared according to the investment ratio," lawyer Lu Changsheng told the Tianjin firm, which agreed to revise the contract.

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CSO: 4020/66

FOREIGN TRADE AND INVESTMENT

LOCALITIES IMPROVE FOREIGN INVESTMENT CONDITIONS

OW221159 Beijing XINHUA in English 1055 GMT 22 Oct 86

[Text] Beijing, 22 Oct (XINHUA)--Local governments will offer preferential treatment to foreign entrepreneurs in addition to the state's newly-issued provisions.

Speaking at the current sixth business leaders symposium in Beijing, Vice Mayor of Shenzhen, Zhou Xiwu, told more than 100 foreign entrepreneurs that projects with advanced technology based in his city are exempt from a land-use fee for five years, starting from the day permission is granted to use the land. "After that time expires, 50 percent of the regular land-use fee can be reduced for another three years," he added.

The land-use fee for industrial and warehousing purposes was adjusted downward from 5-15 yuan (U.S. \$1.70-5.10) per square meter per year to 1-1.6 yuan (U.S. \$0.37-0.54) the vice mayor said.

Established in 1980, Shenzhen is the biggest of the country's four special economic zones. "The Shenzhen Special Economic Zone is now in a new period, emphasizing industrial development," the vice mayor told foreign participants from 24 countries and regions.

In his speech, Li Changan, governor of Shandong Province in east China, said that 15 preferential treatments have been adopted by the province which now has more than 20,000 industrial enterprises.

"Apart from income tax reductions and exemptions as stipulated by the state, enterprises using foreign investment in our province will be granted exemptions from local income tax for eight years, beginning with the first profit-making year," he said.

Also, he continued, "in case an advanced enterprise with foreign investment suffers a shortage of foreign exchange in the initial stages, the local government will provide interest-free loans and assistance."

When the Vice Governor of Hubei Province, Song Shuhua, took the floor he announced six preferential treatments granted by his province to enterprises with foreign investment. These included, the supply of coal, electricity, gas and oil, the distribution of raw and other materials, communications and transport services, the installation and use of telecommunications equipment, the use of domestic loans, and priority in capital construction and technological projects.

Hebei Province is the third largest producer of oil, coal and electricity generation.

Zhang Jianmin, vice mayor of Beijing also made a speech in today's session.

Sources from the State Council told XINHUA that several other provinces and municipalities including Liaoning, Tianjin, Qingdao, Fuzhou have also taken special measures in view of local conditions for the encouragement of foreign investment. They estimate that other provinces will also set their own provisions.

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CSO: 4020/66

FOREIGN TRADE AND INVESTMENT

TIANJIN, CZECHOSLOVAKIA MARK COOPERATION DAY

SK260715 Tianjin City Service in Mandarin 0030 GMT 26 Nov 86

[Text] Activities to mark the day of China-Czechoslovakia 1986 economic cooperation and trade, launched at the proposal of the Chinese and the Czechoslovak sides who have participated in the cooperation, will be carried out today.

[Lafuna Jier), commercial counsellor of the CSSR Embassy in China, (Hade Bofuni), president of the Czechoslovak Foreign Trade General Company, and their entourage arrived in our municipality yesterday. They held a press conference at the Kaiyue Hotel for opening the activities of the friendly trade day. Reporters from 20 press units of our municipality attended the press conference.

According to information, at present economic ties between China and Czechoslovakia are expanding. Last year the total volume of the trade between the two countries totaled 1.4 billion yuan Renminbi, more than a 100 percent increase over that of 1983. Economic relations and trade between our municipality and Czechoslovakia have also developed over the past few years. The import and export trade, which covers such goods as trucks and oceangoing freighters, has yielded satisfactory results to both sides.

Among the members of the Czechoslovak delegation who have come to attend the friendly activities are engineering and technical specialists, entrepreneurs, and university professors. Through lectures and small-scale exhibitions, they will present an extensive introduction of the current Czechoslovak economic situation, and future prospects during the 1-day activities. In addition, they will give operational demonstrations to introduce the variety and features of the machinery products of Czechoslovakia.

Yesterday the Czechoslovak delegation also stated to the reporters that the purpose of their visit is to seek new cooperation partners and establish trade relations beneficial to both sides. They earnestly hope that such friendly relations will be further developed and expanded.

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CSO: 4006/162

STRATEGY OF FOREIGN CAPITAL USE FOR SHANGHAI

Shanghai CAIJING YANJIU [A STUDY OF FINANCE AND ECONOMICS] in Chinese 3
Oct 86 pp 14-17

[Article by Yang Gongpo [2799 0361 2613] and Yang Jianrong [2799 1696 2837]:
"How Shanghai Should Use Foreign Capital"]

[Text]

I. The Issue Outlined

The biggest problem facing economic development in Shanghai today is insufficient funds. Given the surge in economic construction nationwide, it is not possible for Shanghai to get enough funds from the state, so the use of foreign capital to finance economic construction has been put forward as a feasible idea. Actually, foreign capital has become the only means of solving the municipality's fund shortage. But how and on what foreign capital should be used is an issue well worth examining. It can be said that how well we resolve this issue will directly determine whether or not Shanghai's use of foreign capital will succeed.

Use of foreign capital can take two forms: direct investments (joint and cooperative ventures, among others,) and indirect investments (loans, etc.) Generally speaking, direct investments help us obtain advanced foreign production, business, and management techniques, provide training for the business and managerial personnel of Chinese enterprises, make available market information, and enable us to use the marketing and sales networks of foreign businessmen. Indirect investments involve substantial outlays, satisfy the urgent capital requirements of a project, and are flexible, convenient, and subject to few restrictions. But the latter is more risky than the former. Whether or not we choose the proper form of foreign investment intimately influences the realization of the objectives of foreign capital use.

As far as the use of foreign capital by Shanghai is concerned, the currently accepted scenario is this: the municipality's economic development faces many problems, none greater than a substandard infrastructure (this is also a barrier to direct investment by foreigners.) For the moment, however, the only source of funds is foreign capital. But the use of foreign capital necessarily involves return on investment. Infrastructural projects

essentially do not generate foreign exchange. For this reason, we must bundle infrastructural development with industrial technological transformation and use the foreign exchange generated by industry to pay back the loans and interest on infrastructural projects. It is obvious that this scenario makes infrastructural development the major objective of the use of foreign capital. While we understand the rationale for the scenario, we believe that it contains a high degree of uncertainty. First, it is unheard of in the world for a nation to use foreign capital (including commercial credits) to finance urban infrastructure. To use foreign exchange earnings to build public utilities, which earn no foreign exchange, is in itself a risky thing to do. Second, "bundling" inevitably affects the "multiplier effect" of the use of foreign capital by projects that do earn foreign exchange. Even more important, it is unfeasible. It is projected that Shanghai will attract \$3.2 billion during the Seventh 5-Year Plan, of which \$1.4 billion will be spent on the infrastructure, \$1.3 billion on industry, and \$500 million on the tertiary industry. Leaving aside the third category, assuming that these are mixed loans bearing a medium annual interest rate of 7.2 percent with a maturing period of 10 years, principal plus interest payments will total \$5.4 billion at the end of 10 years. In other words, the \$1.3 billion yuan earmarked for industry must generate \$540 million in foreign exchange annually. Yet Shanghai's industrial fixed assets generated only about \$1.8 billion in foreign exchange in 1985. Moreover, most of the products of the 166 industrial projects to be built largely overlap existing exports already earning foreign exchange and may even compete with one another. So there is a danger that export difficulties will be compounded and prices may decline.

In view of the above analysis, we believe the following is a more practical scenario: use indirect investments predominantly, supplemented by direct investments; import new technology and equipment to transform traditional industries, at the same time developing new ones; focus on import substitution in the short run while gradually shift to an export-oriented strategy even as we adjust the municipality's industrial structure. Clearly the thrust of the use of foreign capital in this scenario is directed at the transformation of traditional industries and the adjustment of the industrial structure. Accordingly, the different pieces in the entire plan of foreign capital use have to be reshuffled. That is, the share of investments going to industry must be increased, while that going to the infrastructure must be reduced. Tourism and the infrastructure are to be bundled together, each to enjoy an equal share of investments.

II. The Orientation, Level, and Focus of Foreign Capital Use

1. Factors to be considered in determining the Orientation

To use foreign capital not only meets immediate economic construction needs, but is also a component of China's economic reform and its policy of opening to the outside world. Therefore it is neither an expediency nor a stop-gap measure. In determining the orientation and level of the use of foreign capital, we must consider two most basic elements:

- 1) Economic development strategy. Shanghai's economic development strategy calls for the municipality to continuously and effectively play a pivotal role in the absorption, upgrading, and national diffusion of advanced foreign

technology. At present, however, the existing equipment and state of technology of Shanghai's industries cannot satisfy this strategic requirement. Shanghai's economic development strategy also requires it to shift from a domestically-oriented economy to an export-oriented one, making it the nation's most important foreign trade port. But the present state of Shanghai's export trade still falls far short of this goal, as manifested tangibly by backward production techniques, sluggish technological progress, and the failure of its industrial structure to adapt to the changing international marketplace. Therefore, Shanghai must enter a transformation and vitalization stage during the Seventh 5-Year Plan if it is to become an opened, multi-functional, socialist modern urban center with a sound industrial structure, flourishing science and technology, and an advanced spiritual civilization. It must revolve around the central target of improving economic results, upgrading product quality, developing product variety, expanding exports, and applying advanced technology extensively to speed up the transformation of traditional industries. At the same time, it must vigorously develop new industries and modernize its industrial structure. Clearly, the orientation of Shanghai's use of foreign capital must and should benefit the early realization of the above-mentioned development strategy.

2) the economic results of investments and the ability to recoup investments. It goes without saying that a nation that uses foreign capital to develop its economy must consider economic results and repayment ability when it determines the orientation of the use of such capital. In this context, economic results (the combination of all results, enterprise and social, short and long-term, partial and general) and repayment ability are both related and separate. Put simply, when you consider economic results, you look at it from a different angle than if you are considering repayment ability. The two also differ in scope. Some projects have a "short construction period, a technological level suited to small and medium-sized enterprises, and speedy economic payoffs". While they are able to recoup the original investment readily, their economic results are not necessarily good. In contrast, there are projects with good economic results and a limited ability to recoup the original investment. Consequently, our consideration must be all-round. Statistics show that by 1985, Shanghai had absorbed \$1,336,000,000 in direct foreign investments, most of them concentrated in hotels and apartments, which accounted for 74.81 percent of all investments in joint and cooperative ventures. Industrial projects made up only 20.43 percent. Although this kind of orientation does an adequate job in generating foreign exchange, it produces poor economic results overall. Therefore, in determining the orientation of foreign investment, we must think of long-term projects which produce "long-term relief" (eg., the transformation of traditional industries) as well as the "instant money-maker" type of projects (eg., tourist hotels). If possible, we should also include non-foreign exchange earning projects (eg., the infrastructure). Realities being what they are, Shanghai's emphasis on tourist hotels or the infrastructure has been inescapably one-sided.

2. The Level and Focus of Orientation

In view of the above considerations, the orientation of foreign investment should be a four-level pattern each with its focus.

The focus at the first level is industry, not tourism or the infrastructure. As far as the realities in Shanghai are concerned, its infrastructure is extremely backward. But we must take into account the fact that the infrastructure generates no foreign exchange and that infrastructural projects require vast investments. Hence we must set our sights lower and, in the short run, confine ourselves to projects in transportation and telecommunications. It is relatively easy to finance these projects and the pressure to repay in foreign exchange is also less. Moreover, they can be coordinated with industrial projects and directly serve industrial development.

The focus at the second level is key industries, eg., among traditional industries, food and beverages, textiles, apparel, home electrical appliances, electrical equipment, precision instruments, metal materials, high polymer materials, and building materials; and among up-and-coming industries, microelectronics, fiber optics, biotechnology, and new materials, etc. According to related industrial analyses by the departments concerned, the above-mentioned industries are capital- or technology-intensive industries whose growth will fuel the rise of knowledge-intensive and other high tech industries.

The focus at the third level is the export commodities of the key industries. Obviously, when we use foreign capital, we must consider its repayment. By focusing on export commodities, we can, first, earn foreign exchange and, second, use exports as windows to the world market, which would help facilitate the adjustment of China's product mix and industrial structure. As a result of analyzing and prioritizing over 700 export products, the pertinent departments in Shanghai have so far identified 44 key export commodities, largely products of the key industries at the second level. Hence these exports should become a focus of foreign investment.

The focus at the fourth level is electrical machinery products, which currently account for a tiny share of total Chinese exports. In 1984, total national exports amounted to \$25 billion, of which electrical machinery products made up \$2.2 billion, or a little under 9 percent. In 1985, its share actually dropped, to about 7 percent, at less than \$1.8 billion. During the same year, Shanghai's electrical machinery exports were valued at just \$292 million, 11 percent of the municipality's total exports, barely higher than the national figure. It is therefore immensely important that foreign investment focuses on electrical machinery products.

This focus is necessary because:

- 1) The electrical machinery industry belongs to the equipment sector. Internationally the value of a nation's electrical machinery exports as a percentage of its total electrical machinery output and as a percentage of its total exports is regarded as an index of its modernization. It is also held that if its electrical machinery exports make up less than 25 to 30 percent of its total exports, the nation in question cannot be considered a modernized country. At present electrical machinery exports make up only 2 percent of the industry's gross output value and just 7 percent of the nation's total exports, way below comparable figures for developed nations. For example, in

Japan, the U.S., South Korea, and Singapore, electrical machinery products account for 72.8, 48, 32, and 32.8 percent of the respective nations' total exports. Even our own Taiwan Province manages 32 percent.

2) The need to adjust product structure, particularly export commodity structure. Shanghai's present product structure is rather backward; of the 44 key export products, there are only 3 electrical machinery products. Even among electrical machinery products, only about 20 percent are really technology-intensive. The present trend in international price movements is that the prices of raw materials and minerals will drop, while those of industrial manufactured products, particularly products involving multiple processing, are expected to rise. To increase foreign exchange earnings and added value, therefore, we must adjust the product structure and export commodity structure, and increase the share of electrical machinery products, particularly technology-intensive ones.

3) Given the nation's current situation, no basic changes in China's export commodity structure are possible in the short haul. But if the electrical machinery industry is to be overhauled ten years after the Seventh 5-Year Plan, we must make extra investments in it during this plan period. If we neglect this industry because of its present insignificance, then its development in the decade after the plan is bound to be affected and the industry will continue to languish in a backward state for years to come. The national plan calls for electrical machinery exports to reach \$4 billion in 1990, or 10 percent of total exports, and \$20 billion by the end of the century, or 25 to 30 percent of total exports. For this reason Shanghai must take the export of electrical machinery products very seriously.

As for its feasibility:

1) Shanghai has a solid industrial base and a full industrial lineup. We should see that although both the production and export levels of the electrical machinery industry are rather low, they compare well with the rest of the nation. Many colleges, universities, and scientific research organizations in Shanghai boast fairly-skilled industrial personnel. Provided every sector cooperates with unity of purpose and builds on what the municipality has already accomplished, the industry can be upgraded with a new generation of products and the product structure adjusted in the not too distant future.

2) Compared to other industries, Shanghai's electrical machinery industry is relatively free of dependence on other places for raw materials. In the course of economic reform, less and less raw materials will be allocated through planning and more and more will be allocated through the market. In recent years, industrial production in Shanghai has already been constrained by raw material shortages. The difficulties are particularly acute for industries heavily dependent on raw materials from other localities. In contrast, Shanghai is relatively self-sufficient in the electrical machinery industry's major raw materials, eg., rolled steel. This definitely removes some potential pitfalls for the industry.

3) There are large international and domestic markets for electrical machinery products. The world market for electrical machinery products is worth \$600

billion, while China's share is less than 0.3 percent. Moreover, there are by and large no quota restrictions on these products. In terms of technical standard, electrical machinery industry is a high-tech industry. If Shanghai tackles it strategically, it is fully capable of capturing a larger slice of the world market. The demand for electrical machinery goods on the domestic market is also immense. In 1985, China imported as much as \$17.85 billion worth of electrical machinery products, in the process frittering away a big chunk of the foreign exchange the country earned by selling abroad. Furthermore, for the past few years we have been relying heavily on oil exports as a foreign exchange earner. Now that oil prices have fallen on the international market, there is a dire need to change the export structure. Under these circumstances, it appears even more feasible for Shanghai to adopt an "import substitution" strategy and develop the electrical machinery industry.

III. Ensuring A Related Environment For Investment Orientation and Focus

Improving the investment climate is critical to ensuring that Shanghai achieves its foreign capital orientation and concentration. Different investment forms require different emphases in improving the investment climate. In the case of indirect investments, the emphasis should be on the economic environment. In the case of direct investments, the emphasis should be on the management environment.

1. Improving the economic environment. A strategy whose hallmark is "import substitution" requires the following policies and measures: 1) protectionism. China's industries remain relatively uncompetitive in the world. It is necessary for the government to take certain protectionist policies, particularly in the short run as Shanghai adopts the strategy of "import substitution." Therefore, imports, particularly electrical machinery imports, must be held in check in the next several years. Imports would not be allowed whenever a comparable domestic product exists that matches similar overseas products in quality and performance. Even if the domestic product is slightly inferior, domestic production is favored. 2) allowing products substituting imports to receive foreign exchange. Shanghai must expand export production as much as possible. In the short haul, however, it should emphasize import substitution. As a result, whether or not import substitutes are allowed to receive foreign exchange will have a direct impact on Shanghai's ability to recoup the original investments. 3) establish a classified preferential policy. Different investment orientations and focuses contribute differentially to the realization of Shanghai's various economic development strategic objectives, its economic results, and its ability to recoup the original investments. Consequently, we must take everything into consideration and give different degrees of preference to different investment projects and products according to their contributions to the above.

2. perfecting the management environment. Foreign investors necessarily consider the investment climate when they invest. Apart from putting together a sound infrastructure, therefore, Shanghai should perfect the management climate (by establishing a centralized foreign capital management agency and improving work efficiency, for instance) in order of priorities and, on this basis, gradually improve the economic and natural environments and make the use of foreign capital in Shanghai a success.

FOREIGN TRADE AND INVESTMENT

RULES ON FOREIGN ENTERPRISES IMPORTING MATERIALS

OW011039 Beijing XINHUA Domestic Service in Chinese 0245 GMT 28 Nov 86

[Text] Beijing, 28 Nov (XINHUA)--Procedures of the People's Republic of China for Customs Control Over Materials and Components Imported by Enterprises With Foreign Investment To Fulfill Their Export Contract (24 November 1986)

Article : To encourage enterprises with foreign investment to fulfill their export contracts by processing imported materials and components and exporting them to earn foreign exchange, these procedures are hereby laid down in accordance with "Provisional Customs Law of the People's Republic of China" and relevant State Council regulations encouraging foreign investment.

Article 2: Enterprises with foreign investment shall enjoy their preferences and undertake their obligations to declare imports at customs and pay customs duties in accordance with these procedures; they shall accurately declare their imports at customs. Machinery and equipment, vehicles used in production, raw materials, fuel, bulk parts, spare parts, machine component parts, fittings, and auxiliary and packaging materials (hereinafter referred to as materials and components) which enterprises with foreign investment need to import in order to fulfill their export contracts are bonded commodities, over which the customs department shall exercise supervision and control.

Article 3: The imported machinery, equipment, vehicles used in production, materials, and components mentioned in Article 2 of these procedures are exempt from the requirement for import licenses, and the customs department shall inspect and release them on the basis of the enterprise contract or the import-export contract.

When enterprises with foreign investment seek to export products that are processed with imported materials and components, the customs department shall inspect and release them in accordance with the procedures of the Ministry of Foreign Economic Relations and Trade for application for import and export licenses by enterprises with foreign investment.

When imported materials and components are used to make products for domestic sale, relevant enterprises with foreign investment shall go through import

formalities in accordance with relevant state regulations. For commodities for which import licenses are required, such licenses shall be presented to the customs for verification.

Article 4: Regarding the imported materials and components mentioned in Article 2 of these procedures, only those that are actually used to make exports shall be exempt from import duties and the consolidated industrial and commercial tax.

The above tax-free materials and components include reasonable amounts of catalytic agents, abrasives, and fuel directly consumed in the course of processing exports.

The imported materials and components are restricted to use by the enterprise and may not be sold on the domestic market; if, for some reason, processed products are approved for domestic sale, taxes shall be paid on the imported materials and components used in such processed products in accordance with relevant regulations. Taxes on by-products, substandard products, and leftover bits and pieces turned out in the process of production shall be reduced or remitted according to their values.

Article 5: Materials and components which enterprises with foreign investment need to import to make products on the products-for-imports list [yi chan ding jin mu lu 0110 3934 7307 6651 4158 6922] approved by an authorized department may be put under customs supervision and control as bonded commodities according to these procedures, and their import procedures may be postponed. When such products are supplied to domestic customers, import procedures for the imported materials and components shall be handled according to relevant regulations, and import duties and the consolidated industrial and commercial tax shall be paid on them.

If domestic customers can enjoy the preference of reducing or remitting taxes in importing similar products from abroad, enterprises with foreign investment may also give them such a preference in providing them with such products. However, they should, in accordance with relevant state regulations, submit for verification their certificates of reducing or remitting taxes approved by competent authorities.

Article 6: Materials and components purchased from the bonded warehouses of the departments concerned by enterprises with foreign investment or imported by other enterprises on their behalf through consignment shall be treated as their own imports and handled according to the relevant provisions of these procedures.

Article 7: Enterprises with foreign investment processing imported materials shall register with the customs in their localities (or the customs concerned with their fields of operations) by presenting the pertinent contracts they have signed. After verification, the customs shall issue them the "Registration Handbook of the Customs of the People's Republic of China on Imports of Materials and Components and Exports of Processed Products by Enterprises

"With Foreign Investment as Required by the Fulfillment of Product Export Contracts" (hereinafter referred to as registration handbook). With the approval of local customs, enterprises meeting the required conditions may be dealt with according to the regulations stipulated by the customs concerning processing with imported materials and those concerning bonded factories.

When the above-mentioned materials and components are imported and when the processed products are exported, the enterprises with foreign investment shall make declarations to the customs where the products are made by presenting their "registration handbooks," customs declaration forms of imported and exported commodities in triplicate, invoices, packing lists, and other relevant documents. The customs concerned shall put these records and affix seals on the "registration handbooks" and then return them to the enterprises with foreign investment, which shall, in turn, present the "registration handbooks" to the local customs (or the customs concerned with their fields of operations) for cancellation of duty requirements.

Article 8: With regard to the materials and components imported under import contracts, enterprises with foreign investments shall present their "registration handbooks," customs declaration forms of imported and exported commodities, and other related documents to the customs for cancellation of duty requirements within 2 months following the execution of each contract.

Enterprises with foreign investment shall set up special account books to record the imports and stocks of materials and components and their withdrawal from warehouses for use or for transfer to other factories for processing as well as the stocks, exports, and domestic sales of the processed products. They shall also make quarterly statements based on these records and submit the statements to the customs for examination. With regard to products whose production processes are time-consuming, such statements may be submitted every half year, provided approval is obtained from the customs.

Article 9: If a product processed with materials and components imported duty-free has been approved for sale on the domestic market, the enterprise with foreign investment shall make up the duty exempted on the materials and components and also pay a consolidated industrial and commercial tax on them within 1 month after the date of such approval.

Article 10: The duty-free materials and components imported by enterprises with foreign investment shall be processed into products and the relevant contracts executed within 1 year from the date of import, unless approval for not fulfilling this requirement because of special reasons is obtained from the customs.

Article 11: If a product processed with imported materials and components is not exported directly but is given to another processing production enterprise for reprocessing and reassembling, the enterprise that has imported the materials and components and the production enterprise shall present their purchase and sales contract, processing contract, or other related documents to the customs for transfer procedures and for cancellation of the duty

requirements. The production enterprise undertaking the job of further processing the product for export shall apply for a new "registration handbook" and shall be subject to the supervision and control by the customs in compliance with the relevant provisions of these procedures.

Article 12: When a contract has been changed, transferred, discontinued, or cancelled after the materials and components have been imported, the related enterprise with foreign investment shall promptly approach the customs to change, transfer, or cancel the registration as required.

Article 13: To facilitate the processing and export work of enterprises with foreign investment and reproduction enterprises whose job is to process materials supplied by others into products for export, the customs may station its personnel at their factories to exercise actual supervision and control and may examine their relevant account books on the basis of the actual needs. The aforesaid enterprises shall provide offices and necessary conditions for the convenience of these customs personnel.

Article 14: Without proper approval, enterprises with foreign investment shall not transfer to others or sell on domestic market the materials and components they have imported as bonded commodities or the products they have processed. Any transfers and domestic sales without proper approval and any other unlawful practices in violation of these procedures, if discovered, shall be dealt with by the customs based on the Customs Law and other related laws, decrees, and regulations promulgated by the state.

Article 15: These procedures shall take effect on 1 December 1986.

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FOREIGN TRADE AND INVESTMENT

LIAOWANG ON FOREIGN ECONOMIC LAWS REGULATIONS

HK300257 Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 47, 24 Nov 86
pp 4-6

[Article by Li Shuzhong (2621 2885 1813): "China Accelerates the Formulation of Foreign Economic Laws and Regulations:]

[Excerpts] At the invitation of the Hong Kong Chinese General Chamber of Commerce, Gu Ming, general secretary of the Research Center for Economic Laws and Regulations under the State Council, will hold a "forum on Chinese laws involving foreign economic relations" in Hong Kong on 26 November. On the eve of his departure, the reporter had an interview with him in Beijing. Gu Ming aired his views on many problems concerning economic laws on which people abroad have shown great concern, and disclosed some most up-date information.

Question: Recently, people in industrial and commercial circles abroad have shown great concern for the improvement of the investment environment in China; could you say something about those problems of concern regarding economic laws?

Answer: Over the past 2 years, I have been to many places including Hong Kong, Japan, and the United States, and I found that people in industrial and commercial circles abroad, especially those who have made investments in China, or are ready to do, attach great importance to China's legal environment, and focus close attention on every action we take regarding the improvement of the legal environment. As far as I know, the following problems are of great concern at present:

First, our foreign economic laws and regulations are not quite complete, some important laws have not yet been drawn up, and some commercial activities cannot but be affected by the absence of relevant laws and regulations.

Second, some provisions in the laws and regulations already promulgated are not quite satisfactory, with regard to such questions as taxation, product marketing, foreign exchange balance, and decision-making power in operation. According to the regulations, an enterprise has the decision-making power to recruit its workers and staff; however, those people recruited have to be

recommended by local labor departments. More often than not, those recommended are not suitable, while those people the enterprise really needs cannot be recruited. Because of such factors as resettlement, an enterprise is not entirely free to fire a worker. This has caused annoyance among many foreign businessmen.

Third, some problems also exist in jurisdiction. The phenomena of arbitrarily soliciting enterprises for funds regardless of the law does exist, and this has not been dealt with fairly and seriously.

And fourth, some people are worrying about the stability of Chinese laws, and whether the next generation of Chinese leaders will continue the open policy. Regarding this, Deng Xiaoping, Zhao Ziyang and other Chinese leaders have repeatedly stressed that China's policy is the continuance of opening up, and cannot be otherwise.

Question: How many laws and regulations involving foreign economic relations have been promulgated? What are the overseas repercussions?

Answer: China has promulgated more than 50 foreign economic laws and regulations to date. Of them, 14 laws are NPC promulgations, and more than 40 are rules and regulations issued by the State Council. Besides, more than 30 foreign economic regulations have been issued by various ministries under the State Council, and more than 10 local laws and regulations have been issued. If all domestic economic legislature involving the factors of foreign economic relations is included, the total number exceeds 160.

These laws and regulations concern the following aspects: joint ventures, enterprises run with foreign capital, import of technology, labor administration, foreign exchange control, foreign economic contracts, offshore oil resources development, the customs, the examination of import-export commodities, bank loans, patents, and trademarks.

The promulgation of this series of foreign economic laws and regulations has guaranteed the needs of economic and technological ties and expanding foreign trade. With initial legal protection, foreign investors will invest in China, and our import of foreign capital will be accelerated. By the end of June 1986, joint ventures throughout the country numbered more than 2,700, cooperative enterprises numbered more than 4,100, and enterprises run by foreign capital numbered more than 130. The amount of investment by foreign businessmen 1985 exceeded that of the previous 5 years put together.

Question: Could you mention what important foreign economic laws and regulations will be drawn up and promulgated next?

Answer: According to the requirements of the central authorities, efforts should be made to build a comparatively complete system of economic laws and regulations, in which the legislation of foreign economic laws and regulations is an important aspect. In our initial planning, more than 160 economic laws and regulations will be promulgated in 1987, including some involving foreign

economic relations. The law on joint ventures has been under preparation for several years, with a large number of scholars and experts working on it, and the suggestions of many overseas personalities have been solicited. The plan is quite meticulously and specifically drawn up, and we shall do our best to have it promulgated in 1987. The preparatory work on the "enterprise law" that has factors involving foreign economic relations has been stepped up, and we hope it will be promulgated in 1987, provided everything goes smoothly. The drafting of the company law is under way, and legal stipulations will be made on capital raising, organizational forms, liabilities, and capital issuance. Our initial tentative concept is to propose two organizational forms: the limited liability company and the unlimited liability company. The "bankruptcy law" that has been the subject of repeated controversy is now to be reexamined for adoption. The ocean shipping mercantile law under preparation is a basic one centering around the legal nexus involved in ocean shipping.

In addition, the mercantile law, the foreign trade law, and law of banking, and the law on vouchers involving foreign economic relations are all under preparation.

Gu Ming is 67 this year. Since the founding of the PRC, he has for a long time been engaged in the planning, organization, and leadership of national economic construction. He has been successively appointed responsible person of the economic group under the office of Premier Zhou Enlai, deputy director of the Commission for National Construction, acting deputy director of the State Planning Commission, deputy director of the NPC Legislative Affairs Commission, and deputy secretary general of the State Council. Since 1978, he has participated in the drafting and deliberation of many economic laws and regulations. Since the Research Center for Economic Laws and Regulations under the State Council was set up in 1981, he has been its general secretary. He has been elected chairman of the China Society for Study of Economic Law.

The Research Center for Economic Laws and Regulations under the State Council was first established in 1981, in the organizational form of a board consisting of more than 20 members. They came from major state economic departments, legal departments, the NPC Legislative Affairs Commission, and law schools. The functions of the research center are chiefly to study, plan, guide, coordinate, advise, and deliberate on economic legislation. When an economic law is drafted by a relevant department, it will be submitted to this research center for its deliberation, to the State Council for its adoption, and to the NPC for its approval and promulgation.

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CSO: 4006/172

FOREIGN TRADE AND INVESTMENT

BRIEFS

QINGHAI IMPORT, EXPORT BALANCE--The favorable balance of imports and exports of Qinghai Province from January to September this year was some \$5.67 million [Summary] [Xining Qinghai Provincial Service in Mandarin 2330 GMT 27 Oct 86 HK] /12232

BRISK FUJIAN PRODUCTS' SALES--Fuzhou, 7 November (ZHONGGUO XINWEN SHE)--The Fujian trade delegation that came to Guangzhou to participate in the 60th China Export Commodities Trade Fair returned today to Fuzhou with good tidings: The province's commodities at the autumn trade fair this year sold very well, with transactions valued at more than \$180 million--the best trade record achieved by the province since its participation in the Guangzhou Trade Fair in the past many years. Apart from its traditional native and specialty products, there was quite a glittering array of newly developed commodities displayed by Fujian Province at the recent Guangzhou Trade Fair. Foreign businessmen vied with each other to place orders. Colorful modern garments, dazzling pearls and jewels, fashionable traveling bags, and such aquatic products as prawns, eels, and so forth were well received by foreign businessmen. The Fuhui Ornaments Company, a joint venture with Hong Kong businessmen, concluded transactions valued at \$18 million at the autumn trade fair, opening a market for the province's jewelry exports. [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 1408 GMT 7 Nov 86 HK] /12232

JILIN EXPORT PLAN--As of 10 November 1986, Jilin Province had overfulfilled its annual export plan. Total exports were valued at \$449.26 million, exceeding the annual plan by 1.6 percent and showing an increase of 45.3 percent over the same period of 1985. [Summary] [Changchun JILIN RIBAO in Chinese 12 Nov 86 p 1 SK] /12232

LIAONING EXPORT PLAN--Liaoning Province has prefulfilled its export commodity procurement and export plans by 2 months. As of the end of October, the total procurement of export commodities was valued at 3.65 billion yuan, doubling that of 1985, and exceeding the annual plan by 15 percent. The total export of commodities is valued at \$970 million, an all-time record. The export volume of light and heavy industrial products also increased over last year. [Summary] [Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 15 Nov 86 SK] /12232

HEILONGJIANG EXPORT FULFILLMENT--Heilongjiang Province has prefulfilled its export plan and the plan for purchasing export commodities by 50 days. As of

10 November, the province realized more than \$520 million of foreign exchange by exporting commodities, a 54.5 percent increase over the figure for the corresponding 1985 period. The total volume of purchasing export commodities reached 3.8 billion yuan, a 19.1 percent increase over the figure for the corresponding 1985 period, topping the previous high. [Excerpt] [Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 17 Nov 86 SK] /12232

DEVELOPING SHANGHAI'S TOURISM--A symposium on the strategy for developing Shanghai's tourism industry opened in the morning of 29 November. At the meeting Mayor Jiang Zemin noted that the tourism industry will play an important role in developing Shanghai into an open city with multiple functions. Because Shanghai is well known many state guests wish to visit there. Consequently, developing Shanghai's tourism industry is of great significance. He hoped that Shanghai will establish a tourism network linking neighboring provinces and cities, extend the network step by step and actively create a new situation for the tourism industry. Yan Tingchang, director of Shanghai's Tourism Bureau, addressed the meeting on the role that the tourism industry plays in Shanghai's economic development, the direction and goal of tourism development in Shanghai, and so forth. This symposium is scheduled to last 4 days. [Text] [Shanghai City Service in Mandarin 0100 GMT 30 Nov 86 OW] /12232

TIANJIN BOND ISSUE IN JAPAN--Tianjin, November 30 (XINHUA)--The Tianjin International Trust and Investment Corporation will issue 10 billion yen-worth of bonds in Japan in the near future, an official of the city council said today. And a Japanese corporation has graded Tianjin's financial credit as third of the 12 grades, after judging its economic situation, fund credit, import and export business, industrial productivity and the development of its joint ventures, the official said. Tianjin, the third largest city in China, is one of the coastal cities open to foreign investment, and its financial income has been increasing steadily. Japan's Investors Service Corporation considered that the city enjoys a favorable balance of trade. Last year it earned 1.1 billion U.S. dollars from imports. Joint ventures in this north China port city are developing smoothly. All those now in business have a balance of foreign currency. [Text] [Beijing XINHUA in English 1522 GMT 30 Nov 86 OW] /6662

MALAYSIA RELAXES TRADE CONDITIONS--Hong Kong, November 17 (XINHUA)--The Malaysian Government has relaxed travel conditions for businessmen on trade tour to China, the Malaysian news agency BERNAMA reported from Kuala Lumpur today. Deputy Trade and Industry Minister Kok Wee Kiat told the House of Representatives that this was among several follow-up moves taken to step up trade with China following Prime Minister Mahathir Mohamad's visit there in November last year. To a question by an opposition member, the minister said government agencies had also sent several delegations, including technical and trade missions, to China. He added that both countries were also discussing a trade agreement to enhance bilateral trade, saying trade balance was presently in China's favor. Last year, Malaysia's trade deficit with China amounted to 223.7 million Malaysian dollars (about 86.04 million U.S. dollars). Exports to China totaled 398.9 million Malaysian dollars (about 153.4 million U.S. dollars), Kok said. He added that exports to China in the first seven months of this year amounted to 223.1 million Malaysian dollars (about 85.8 million U.S. dollars), compared with imports worth 1.1 million Malaysian dollars (about 146.6 million U.S. dollars). Kok told the house that businessmen who had joined official trade delegations to China were allowed to make follow-up trips. [Text] [Beijing XINHUA in English 1440 GMT 17 Nov 86 OW]

ECONOMIC STUDY GROUP WITH JAPAN--Shanghai, November 26 (XINHUA)--Chinese and Japanese economists formed a society here today to tackle the imbalance in the bilateral trade between the two countries. The Sino-Japanese society in Shanghai is a nongovernmental organization proposing suggestions for Shanghai's urban construction and economic development. At today's session, some Japanese experts suggested that China should readjust its industrial structure to promote exports, while Japan should open its market further and increase domestic consumption. Wang Daohan, former mayor of Shanghai, is the honorary president of the society. Ni Tianzeng, deputy mayor of the city, and Tomoo Takada, an economist from the economic research institute of Daiwa Securities Co. Ltd, are the presidents of the society. [Text] [Beijing XINHUA in English 1549 GMT 26 Nov 86 OW] /6662

FUJIAN ELECTRONICS EXPORTS EXPAND--This year Fujian's exports of electronic products earned a record amount of foreign exchange. From January to October the total amounted to \$4.97 million of which Sino-foreign joint ventures accounted for \$2.81 million. Among the total number of products exported, the proportion of whole machine products has increased greatly. Color televisions, tape-recorders, radios and electronic massage machines brought in \$2.45 million representing 49.4 per cent of the total volume of exports. This year leaders in the electronics industry have become increasingly aware of the importance of exports and the number of export producing factories in the province has risen from last year's 8 to 16. The variety of products for export has also increased. Exports are not only targeting the Hong Kong/Macao market but also the markets of Southeast Asia and, in some cases, the United States and Europe. The Xiahua company has already sold 9,000 color televisions to the U.S.. [Text] [Fuzhou FUJIAN RIBAO in Chinese 19 Nov 86 p 1]

BEIJING: FOREIGN FINANCIAL INSTITUTIONS--[Report: "Ninety-Nine Foreign Financial Institutions Have Set up Offices in Beijing"--ZHONGGUO XINWEN SHE headline]--Beijing, 2 Dec (ZHONGGUO XINWEN SHE)--Japan's International Securities Corporation has set up its representative office in Beijing, and the president of this Japanese institution, Mr Joshi Kawajima, today held a banquet at the Beijing Hotel to celebrate the opening of the Beijing office. So far, the People's Bank of China has approved 99 foreign banking and financial institutions to set up representative offices in Beijing, and 39 of them are Japanese institutions. A number of Japanese securities companies have set up representative offices in Beijing, and they have played an important role in helping Chinese institutions issue their bonds in Japan. Later this year, Tianjin Municipality will issue 10 billion yen of bonds in Japan. [Text] [Hong Kong ZHONGGUO XINWEN SHE in Chinese 1247 GMT 2 Dec 86 HK] /6662

IMPORT, EXPORT PROCEDURES--Beijing, 2 Dec (XINHUA)--China will issue import and export licenses to enterprises with foreign investment next year and simplify their application procedures, according to the thrice-weekly newspaper INTERNATIONAL BUSINESS. The licenses, to be issued by the Ministry of Foreign Economic Relations and Trade, will also serve as a basis to check the actual performance of these enterprises. To fulfill its export quota, a foreign-invested enterprise will be able to import equipment, vehicles, raw materials, fuels and machine parts. At present, these enterprises have to go through special procedures for every import and export. [Text] [Beijing XINHUA in English 0206 GMT 2 Dec 86 OW] /9738

TAX EXEMPTIONS FOR JOINT VENTURES--Tianjin, 4 Dec (XINHUA)--The Tianjin customs office has announced 12 joint venture enterprises are now exempt from import duties in a bid to promote the export of their products. "This preferential treatment is given only to those enterprises that import raw materials and sell products on the international market," a senior customs officer told XINHUA today. "At the same time industrial and commercial import tax will also be waived," he said, but added their products must be exported within a limited time and cannot be sold or transferred to the domestic market without the permission of the customs office. "The decision was made to serve the open policy of the city, lower production costs and accelerate capital flow," he said. The 12 enterprises benfited by the ruling include a cosmetics company run jointly with Federal Germany, a Sino-Japanese pharmaceutical company, a Sino-French wine brewery, and an automotive spare parts enterprise funded with American capital. [text] [Beijing XINHUA in English 1039 GMT 4 Dec 86 OW] /9738

SILK EXPORT POLICY ADJUSTED--Hangzhou, 10 Nov (XINHUA)--The government of South China's Zhejiang Province has adjusted its silk export policies to meet foreign demands, a provincial official said today. "The new policy has made it possible for the provinces' silk exports last month to climb to U.S. \$25 million, surpassing any monthly figure since the 1960s," said Ling Rencai, manager of the provincial silk company. Adjusting production structures, increasing silk varieties and shortening delivery time are the main goals of the new policy. "The province cut exports of raw silk 50 percent over previous years to the present 26 pércent, while offering more varieties and new silk products made locally with better technology and advanced equipment," the manager said. The province has also started exporting silk garments which are made according to styles, colors and designs preferred by foreign customers. The province, a region known as the "home of silk," began silk production 4,000 years ago. [Text] [Beijing XINHUA in English 1214 GMT 10 Nov 86 OW] /9738

RURAL FACTORIES FINANCED--Beijing, 4 Oct (XINHUA)--Rural factories financed by people of Chinese ancestry living overseas have become an important part of the economy of Fujian Province on China's southeast coast, the PEOPLE'S DAILY reported today. Since the country began encouraging independently-owned small businesses in rural areas in 1979, 7,000 factories have been built and are owned in Fujian by overseas Chinese, relatives of overseas Chinese or by joint ventures between overseas Chinese and local governments. With 200,000 workers and an investment of 280 million yuan (U.S. \$75.6 million), the factories produce thousands of products, including garments, hardware, chemicals, processed food, electronic products and arts and crafts. More than 500 of the products are exported. With the help of these factories, the overall income of Fujian's rural industry rose to seven billion yuan (U.S. \$1.9 billion) in 1985, 42.8 percent more than in 1984. To encourage investment in Fujian, local authorities have given preference to factories with overseas Chinese capital in such areas as material supplies and marketing, the communist party paper said. [Text] [Beijing XINHUA in English 0723 GMT 4 Oct 86 OW] /9738

FOREIGN INVESTMENT IN STEEL--Beijing, 21 Oct (XINHUA)--Foreign investors in China's iron and steel industry "need not worry about foreign exchange earnings or fear creating a future international competitor," a senior Chinese official said here today. Lu Xusheng, vice-minister for the metal-

lurgical industry, told foreign participants in an international business leaders symposium now in session here that Chinese steel plants will not be able to satisfy domestic demand in 1990. "We will increase annual output from 46.79 million tons in 1985, when we had to import 20 tons of steel, to 58 million tons by 1990--and that will not be enough," he said. For that reason, said Lu, "joint steel production ventures in China will be able to sell what they make on the domestic market, and we will pay for the steel with foreign currency. Since it is unlikely that China will export large quantities of steel for a long time to come, foreign investors should not fear that by helping China develop its industry they will create a competitor on the international market," he added. According to Lu, China's average per capita steel production is 50 kilograms, "below the level of the developed countries." [Text] [Beijing XINHUA in English 0832 GMT 21 Oct 86 OW] /9738

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SPECIAL ECONOMIC ZONES

WAYS TO IMPROVE FOREIGN EXCHANGE USE IN SHENZHEN DISCUSSED

Guangzhou GANG-AO JINGJI [HONG KONG & MACAO ECONOMIC DIGEST] in Chinese No 8,
15 Aug 86 pp 18-19

[Article by Wang Jian [3769 0256] of the Shenzhen International Trust Consulting Co of the Bank of China: "A Brief Discussion of the Absorption and Utilization of Foreign Exchange in the Shenzhen SEZ"]

[Text] Even though, the Shenzhen SEZ has over the past several years achieved some success in its efforts to attract foreign exchange, problems remain: some units seek to attract foreign capital for its own sake and fail adequately to assimilate and utilize such capital after bringing it in, thus leading to "out flows of foreign exchange funds." In this article I shall present some of my own tentative, superficial ideas on the subject.

I. Reason for the "Outflow of Foreign Exchange"

A. Faults in Macroeconomic Policy and Management

1. The interest rate on foreign exchange in the Shenzhen SEZ is "higher than the rest of China, but lower than in Hong Kong." This has not only caused foreign exchange retained by SEZ enterprises or and other cash foreign-exchange holding in the SEZ to be transferred abroad, but has also led to outflows of inland holdings via channels provided by liaisons with enterprises in the interior. It is estimated that the total outflow of foreign exchange has reached \$250 million.

2. Ever since China's money market was tightened up last year, arbitrary, uniform standards have been applied nationwide, and the SEZ is no exception. Not only are there limits on the amount of foreign exchange banks can use to extend credit, but there are also quotas on the amount that enterprises can borrow. At the same time, nonbanking agencies (such as credit and finance companies), have been forbidden to make, or forced to control, investment in and loans to enterprises. Even if an enterprise project is highly feasible, it may very well suffer a setback due to the lack of credit available from banks or financial institutions or to the lack of any assigned quotas allowing the enterprise to borrow. At this time, bank-held foreign exchange can only flow toward foreign owned banks, where interest rates are high, and enterprises have no choice but to seek credit abroad or from foreign banks.

3. Many SEZ units look primarily abroad to raise foreign capital and do not consider the possibility of attracting and absorbing valuable foreign exchange currently available within the zone. In Hong Kong dollars alone, last year as much as HK \$2.2 billion were amassed. And get current regulations governing foreign-exchange control make it easier to win approval for foreign-exchange transactions abroad than for such dealings within the zone (such as stocks and bonds denominated in foreign currency).

4. The foreign-exchange adjustment center established within the SEZ has theoretically played a role in the rational disposition and horizontal circulation of foreign exchange to meet the needs of enterprise units and public agencies. However, in actuality, the foreign-exchange adjustment rate is determined according to enterprise cost of earning foreign exchange, transactions are completed blindly and thus foreign-exchange supply and demand and purchasing-power parity are ignored. This has led to different prices for each enterprise and made most enterprises that enjoy a surplus of foreign exchange prefer to deposit that exchange in foreign-owned banks, where the money earns high interest, than to sell the exchange at low prices. When these enterprises have a pressing need for RMB, they would rather take out a mortgage at a securities company than sell foreign exchange. Since the state restricts the investment and credit activities of nonbank financial institutions, the mortgaged foreign exchange can only end up in foreign owned banks, where it will earn less interest.

B. Problems in Microeconomic Operations

1. The SEZ permits banks of all types to have overlapping business functions, which has promoted competition among and the development of the banks. However, some nonspecialized banks have engaged in blind competition without taking stock of their capabilities and resources. Although these banks have managed to grab some of the foreign-exchange deposits of the specialized banks, they lack variety in their foreign-exchange operations, their services are low in quality, they do not possess sufficient information on international financial markets and thus they cannot properly handle foreign-exchange investment projects and customers within the SEZ and therefore have no choice but to entrust much of the foreign-exchange business and deposits they have won to foreign-owned banks or agencies representing overseas banks. From the microeconomic point of view, although nonspecialized banks, by engaging in the above activities, profit from interest differentials (interest on foreign-exchange deposits in the SEZ is lower than it is overseas or in foreign-owned banks) and avoid investment risk, from the macroeconomic point of view, the outflow of capital has injured the SEZ's image.

2. The introduction of foreign-owned banks doubtless has caused the SEZ financial operations to flourish and enhanced competition among banks. Foreign-owned banks are very experienced in foreign-exchange operations, engage in many categories of business, offer quality service and good interest rates, keep costs down, provide customers with vehicles of credit that are sufficiently fluid, profitable and secure and thus have won quite a few customers within the SEZ. By comparison, there is much room for improvement in our banks.

3. Some enterprises in the SEZ have terrible management, indulge in indiscriminate importation and waste foreign exchange. The current huge inventory of imported commodities takes up much foreign exchange that banks could otherwise use credit to provide and puts a squeeze on enterprise foreign-exchange quotas.
4. The SEZ's export-oriented industry has not yet taken shape, and many enterprises are not competitive internationally. Thus, though many units have applied for credit, banks would rather transfer foreign exchange abroad than run the risks of late loan repayment and bad debts. Meanwhile, SEZ enterprises or projects can obtain financing only from abroad and at high interest rates and must also pay guarantee fees or high-risk interest.

5. Many large Shenzhen companies have branch offices in Hong Kong or abroad. As a result, quite a few companies do not convert their foreign-exchange holdings domestically but rather keep them abroad so they can be used when needed.

II. Tentative Ideas on the Absorption of Foreign Capital and the Full Assimilation of Foreign-Exchange Funds

A. Extensively Bring in Foreign Capital and Prevent the Blind Outflow of Foreign Exchange

1. We must change the SEZ's foreign-exchange rate policy. The principles behind the SEZ's foreign-exchange rates should be adapted to the needs of the zones' developing market-economy.
2. Exchange rates in Shenzhen should reflect foreign-exchange supply and demand and purchasing-power parity. At the very least, rates on the foreign-exchange market must be determined by supply and demand, and exchange rates should function as levels in the regulation of the SEZ economy. When there is an unfavorable balance of international payments, exchange rates could be lowered to encourage the inflow of foreign exchange. When the reverse situation occurs, rates could be raised. At present, the SEZ's RMB-exchange rate should be lowered. Such a move would not only encourage exports, but would also facilitate absorption and utilization of existing foreign-exchange funds as well.
3. We must enhance the ability of banks to compete on the international market and expand banking services so as to rapidly and safely win over foreign-exchange deposits by offering complete, convenient service at a reasonable price.

At the same time, various methods should be used to soak up idle Hong Kong dollars held by local residents. In particular, vehicles of financial circulation should be developed, such as personal checking, savings deposits or such negotiable securities as bonds and stocks, all of which would play a role in absorbing capital.

4. We must strictly forbid large companies to use their overseas branches to evade foreign-exchange controls. Exchange that should be converted domestically be so settled.

5. We must rapidly create a network of financial organs in the SEZ for the management of foreign exchange. Capital should be raised not only within the zone but in the rest of China and on world financial markets as well. Liaisons could be made with one of two strong companies in the SEZ, or several nearly bankrupt companies abroad could be purchased and taken over to win a position on the international securities market.

B. Absorb, Assimilate and Fully Utilize Foreign-Exchange Funds

1. We must change controls on SEZ foreign-exchange credit quotas and advocate allowing more credit for bigger depositors. Otherwise, savings funds above these quotas will be deposited wherever interest rates are higher, which will cause an outflow of and reduce the overall effectiveness of foreign-exchange.

2. We must stop applying arbitrary, uniform standards everywhere and permit rational investment and credit activities by strong nonbanking financial agencies in the SEZ. Some of these agencies are just as good as certain banks in terms of personnel quality, level of operations, amounts information they possess in financial markets and their source of customers. By strictly forbidding these agencies to invest and extend credit, we are essentially encouraging them to shift their foreign-exchange deposits oversea.

3. SEZ foreign-exchange funds must be used not only in the zone, but in the rest of China and the world as well and should participate in international bank consortia investment and credit activities. This is the best route for the development of SEZ finances.

4. In utilizing foreign-exchange we must strengthen centralized planning, control the direction in which foreign-exchange is used, pay attention to the breakdown of foreign-exchange use, establish corresponding investment ratios and levels for foreign-exchange and strictly prevent short-and long-term loans. Long-term investment in fixed assets should be financed through long-term bonds or stocks. Only in this fashion can we fully utilize our foreign exchange and improve financial circulation.

5. We must smash the big old egalitarian pot, link the benefits from loans to individual responsibility, strengthen supervision of units obtaining foreign-exchange loans and be aggressive in providing advice to units that are late in repaying debts so as to improve their operations. Defaulters must be dealt with according to contract terms and be forced to hand over their mortgaged property, dispose their overstocked materials or even go into bankruptcy to settle their accounts.

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SPECIAL ECONOMIC ZONES

NEW IMPORT-EXPORT TAX EXEMPTION RULES IN XIAMEN REPORTED

Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 18 Sep 86 p 3

[Article by reporter Wang Weizhong [3769 3555 0022]: "There Are New Rules for Import and Export Tax Exemptions; Detailed Rules and Regulations for the Xiamen SEZ Go into Effect 20 September]

[Text] Approved by the General administration of Customs, the Detailed Rules and Regulations for the CPR Xiamen Customs Concerning the Supervision Control, Taxation and Tax Exemption of Goods, Vehicles of Conveyance, Luggage and Mailed Items Entering and Exiting the Xiamen SEZ will go into effect 20 September this year.

The Detailed Rules and Regulations provide that customs duties and industrial and commercial consolidated taxes (production-cost or value-added taxes) on goods imported with the approval of supervisory state departments or of supervisory departments or of supervisory departments of the Xiamen City Government by Xiamen SEZ enterprises or agencies for use within the SEZ shall be handled as follows.

Taxes shall be waived on machinery, equipment, spare parts, raw materials, materials (including construction materials), fuel, and transport vehicles; foodstuffs for use in the tourist, restaurant, and catering industries; and a reasonable amount of office supplies and conveyances for internal use in public institutions and administrative organs.

Taxes shall be levied according to regulation on goods whose import is restricted by the state, such as automobiles, computers, televisions, tape recorders, refrigerators, washing machines, cameras and their spare parts and components. Taxes on the abovementioned goods shall be waived if they are to be used by enterprises for production or normal operations or by public institutions and administrative organs for internal use.

Export taxes shall be waived on exports manufactured by SEZ enterprises. Exports that use inland materials, parts or semifinished products; that have undergone substantial processing by SEZ enterprises; and that have an SEZ valued-added of over 20 percent may be considered to be SEZ products and shall be checked and released by customs upon presentation of documentation from the supervisory organs of the Xiamen City People's Government.

Raw materials, materials, spare parts, parts and primary parts imported by SEZ enterprises to produce exports shall be handled by Customs in accordance with legal measures applicable to the processing of imported materials or to bonded factories.

As for the control of conveyances imported into and exported out of the SEZ, the Detailed Rules and Regulations stipulate that ships carrying cargo from the SEZ into the interior must load at Custom-approved docks. When deemed necessary Customs is authorized to detain and investigate any conveyance suspected of smuggling or violating regulation.

The Detailed Rules and Regulations stipulate that all foreigners who have purchased housing or who reside permanently within the SEZ should apply to Customs for tax exemption on imported items necessary to set up their homes, presenting documents from the appropriate supervisory organs. Permission shall be granted once it is verified that the items are for personal use and are of reasonable quantity.

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SPECIAL ECONOMIC ZONES

XIAMEN MUST CHANGE EXPORT COMMODITY STRUCTURE

Hong Kong TA KUNG PAO in Chinese 6-7 Nov 86

[6 Nov 86 p 11]

[Article by Zhang Nanzhou [1728 0589 5297]: "Xiamen Special Economic Zones' Export Commodity Structure"]

[Text] We must build up the Xiamen Special Economic Zone (abbreviated hereafter as SEZ) as an export-oriented, economically open zone. A SEZ must increase exports to earn more foreign exchange if it is to balance its foreign exchange, survive, and develop. Of the many elements involved in export trade expansion, a strategic one is a sound export commodity structure. This article explores this issue in the context of the development process of the Xiamen SEZ.

Xiamen SEZ's Present Export Commodity Structure

At present, Xiamen's total exports are valued at about \$100 million, consisting mostly of processed foodstuffs (primarily canned food) and agricultural byproducts and native, special produce, which between them account for almost two thirds of all exports (62.8 percent in 1985.) The rest comprises industrial manufactured products: light industrial products and arts and crafts. Largely absent are technology-intensive heavy and chemical industrial goods and sophisticated, knowledge-intensive products. Thus the zone's export commodity structure is dominated by the simple processing of raw materials (led by agricultural resources). See table for details.

Clearly the Xiamen SEZ's export commodity structure has taken shape over a period of time starting mid-1950's. It was a great advance over the pre-PRC structure which consisted purely of agricultural byproducts, native and special produce, and raw materials. Yet the present structure is labor-intensive, dominated as it is by raw materials in the form of agricultural byproducts, lightly processed foodstuffs, native produce, and light handicrafts. It has failed to keep pace with the needs of economic development in the zone.

If we look at the history of the export commodity structure of a nation (region), it usually evolves through these stages: raw material- or resource-

intensive, labor- or handicraft-intensive, capital- or technology-intensive, knowledge- or high tech-intensive. As a result, Xiamen's present structure has many disadvantages for the zone's international competitiveness:

1. the output of agricultural byproducts and native, special produce is limited, both qualitatively and quantitatively, by natural factors and is also seriously out of step with the domestic supply and demand situation.

2. There is little multiple processing. Since labor added value is low, prices are kept low and foreign exchange earnings are depressed.

3. The international market's capacity for foodstuffs, agricultural byproducts, and native produce is relatively stable and fairly inelastic.

If Xiamen keeps its present export commodity structure, it will find it very difficult to increase exports significantly and earn more foreign exchange.

A Sound Export Commodity Structure for Xiamen SEZ

To increase commodity exports and foreign exchange earnings steadily, Xiamen must adjust and overhaul its present export commodity structure and gradually replace it with a sound one. A so-called sound structure should be one which is guided by a correct export orientation, has adequate sources of popular marketable products, and can earn a high and increasing percentage of foreign exchange on a stable and sustained basis.

In the next several years, therefore, Xiamen must make this strategic shift in its export commodity structure: from labor-intensive primary products to technology-intensive industrial manufactured goods; from simple processed manufactured goods to multiple processed manufactured goods. To bring about this shift, it must go about adjusting and transforming its existing industries and building new ones immediately. Only when we build up, on the macroeconomic level, an advanced industrial structure that is oriented to exporting to the world, and equip, on the microeconomic level, all export enterprises with advanced technology, equipment, and processes and scientific ways of doing business and management can our export commodities compete in the international market. Only then can we develop brand-name flagship products, expand exports substantially on a long-term basis, and increase foreign exchange earnings effectively.

In view of the trends in international trade and the needs of domestic economic construction and taking the present realities as its point of departure, Xiamen should follow a two-stage approach toward establishing an export-oriented export commodity structure: the first stage (up to 1990, coinciding with the Seventh 5-Year Plan,) and second stage (the 5 years after 1991).

[Text]

The First Stage

1. Existing export industries will be adjusted and transformed in a planned way. Traditional export commodity bases will be solidified. The first problem we encounter in export trade, a problem known to all, is this: "first-rate raw materials, second-rate products, third-rate packaging, and fourth-rate prices." This is because factories and enterprises are deficient in technology and equipment and poorly managed, and follow inappropriate economic practices. As a result, their export commodities are shoddy, raw material consumption wasteful, production costs high, and ability to earn foreign exchange very limited. These problems must be seriously addressed. Operations, marketing, and management must be improved earnestly, product quality must be upgraded, transportation and communications must be developed, packaging must be given priority, and after-sale services must be stepped up in order to meet the demand of the international marketplace. Provided we achieve this, we can demand commensurately better prices and earn more foreign exchange.

2. On the whole, Xiamen's industry has a low technological standard and backward structure. Nevertheless, there is already an industrial base in place, with as many as 588 factories inside the SEZ covering a range of industries from food, textiles, arts and crafts to pharmaceuticals, machine-building, chemical industry, shipbuilding, and electronics. Provided we make some investments in certain enterprises, import key technology and equipment, make the necessary technical changes, and ensure that measures designed to encourage export trade are really carried out, more enterprises will come up with more export commodities suited to the international marketplace. That way Xiamen's sources of export commodity will be enriched.

3. We should exploit Xiamen's advantages and, through extensive efforts to "import foreign technology and capital and cooperate with the interior," expand or build a host of enterprises capable of turning out products that the international market wants. We should increase sophisticated export commodities and gradually improve its present export commodity structure. Guided by an export orientation, new enterprises should satisfy the import substitution needs of the interior as well as focus on the production of commodities that will break into the world market. For this reason, they must use advanced technology and scientific marketing and management and produce merchandise that meets international standards.

The Second Stage

Building on what we have achieved in the first stage--adjusted, transformed, expanded, and newly built enterprises, we put in 4 to 5 more years of effort in this stage and gradually fashion an export commodity structure dominated by textiles, electronics, chemical industry, machine-building, and shipbuilding. The hallmark of the new line of products will be electrical machinery products. When this structure takes shape, it will mean that Xiamen has made

the transition from the export of primary products involving mainly the simple processing of raw materials to the export of industrial manufactured products involving multiple processing. This shift is prompted by the consideration that for economically developed capitalist nations, the latter have become so-called "sunset industries" on the road to elimination. They consume too much land, labor, raw materials, and energy. For a place with Xiamen's level of industrial technology, however, these industries represent advanced applicable technology. Moreover, since the international marketplace still has a considerable appetite for textiles, electrical appliances, machinery, and industrial chemicals, these industries will not decline rapidly for a long time to come. This is because their products are indispensable to both daily life and social production in developed and developing nations alike, so the industries can adapt to the needs of the market at different levels. Moreover, as the world economy develops, living standards rise, and tastes and trends come and go, these industries will keep changing constantly, with the result that they have a large growth elasticity in the market. However, as the international marketplace is highly competitive for these industries, we must not stick to old ways and follow in others' footsteps. As much as possible, we should use the latest advanced science and technology and produce the latest advanced products, making sure that the result is coherent product lines. In the textile industry, for instance, there should be coordination between the cotton, wool, silk, and chemical fiber lines of products. We should focus on the three major groups of products--apparel, decorations, and industrial products--to steer export commodities in the direction of diversification, good quality and originality. Another example is the electronics industry. Here we should pay attention to the development of software, optical fiber, television broadcasting equipment, telecommunications equipment, navigation equipment, and other technology-intensive new products. We should also take pains to popularize the use of electronic goods in industrial automation control. In general, a nation (region) should base its industrial development on its existing foundation, but this does not rule out the possibility for some industries to pursue super growth. That way the Xiamen SEZ not only can graduate to a new stage of capital- and technology-intensive industries from its present raw material- and labor-intensive stage, but can also pave the way, materially and in terms of qualified personnel, for further lessening the differences between its industrial structure and that of advanced capitalist nations, and for the transition to an export commodity structure featuring knowledge-intensive products and others using sophisticated technology. In the process, too, the Xiamen SEZ will be fulfilling its role as the four windows (technology, management, knowledge, and foreign policy) for the economic development of Fujian and the entire nation.

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POPULATION

CENSUS OF MENTALLY, PHYSICALLY DISABLED PLANNED

OW251332 Beijing XINHUA in English 1234 GMT 25 Nov 86

[Text] Beijing 25 November (XINHUA)--China will begin its first sample census of the disabled 1 April 1987, Li Zheng, head of the group administering the census, said at a news conference today.

The census will involve 10,000 trained investigators who will interview 1.5 million people in 29 provinces, autonomous regions and municipalities, he said.

"It will be the largest sample census of its kind in the world," Li said.

The census will count the intellectually, physically and mentally disabled.

Although officials have estimated that China has 20 million disabled people, some experts say they suspect the true figure is much higher.

"Not having accurate figures has slowed down the government's efforts to study and solve the problems of the disabled," said Li.

"The census should tell us as accurately as possible how many people need help, where they are, the causes of their ailments, the state of their health and their educational levels, employment, and marriage and family life," he said.

Following the census, "the government will be able to work out better policies and measures to safeguard the interests of the disabled," Li said.

Preliminary census results should be available in September 1987, with full results complete by the end of the year, according to Li.

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POPULATION

BRIEFS

CHINA TO FACE POPULATION BOOM--China will face another population boom in the next 10 years, according to related data and reports. There were 200,000 more newlywed couples in 1984 than in 1983, and 500,000 more in 1985 than in 1984; and more marriages are expected to take place from now on. The 350 million babies born during China's second population boom are growing up; even if each married couple among them is limited to one child, it could mean 11 million births annually. And because some couples may still have two or more babies, each of the following 10 years could witness the birth of 20 million babies, so that in the coming 15 years the entire population could grow by more than 300 million.
(Extracted from XINXI RIBAO) [Summary] [Shenyang SHENYANG RIBAO in Chinese 3 Nov 86 p 4]

CSO: 4006/160

TRANSPORTATION

BRIEFS

DALIAN SHIPYARD EXPANSION--Shenyang, November 27 (XINHUA)--The Dalian shipyard, the only shipyard capable of building 100,000 dwt ships in China, will lead the country in ship exports when an ongoing expansion project is completed in 1990, the director of the shipyard said today. The shipyard, founded in 1898 and with more than 10,000 employees, will bring its annual shipbuilding capacity to one million dwt by that date, said Wang Youwei. The project includes the expansion of an existing berth, building support projects for a berth which can accommodate 100,000 dwt ships and a dock for 200,000 dwt ships. The shipyard will provide its own investment, Wang said. The shipyard has signed contracts with businessmen from Britain, Japan and Norway to build 18 ships, ranking first in the country. [Text] [Beijing XINHUA in English 0259 GMT 27 Nov 86 OW] /6662

FOREIGN SHIPPING PORT IN JIANGSU--Nanjing, November 14 (XINHUA)--In an effort to alleviate overcrowding at the port of Shanghai, China will soon open a modernized Dagang port in Zhenjiang City, Jiangsu Province, to foreign ships. A wide, ice-free facility on the lower reaches of China's longest river, the Yangtze, Dagang is located at the junction of the Yangtze and the Beijing-Hangzhou Canal, the country's main north-south waterway. Dagang is also a stop on the Beijing-Shanghai railroad. Officials said today they expected the port to increase the region's foreign trade and to help the economy in the lower reaches of the Yangtze. The port includes four 25,000-ton deep-water berths, a 2,000 ton berth and seven wharves with an annual handling capacity of 2.36 million tons. Officials said the port plans to build another 14 deep-water berths with a combined cargo handling capacity of 10 million tons. [Text] [Beijing XINHUA in English 0644 GMT 14 Nov 86 OW] /6662

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PUBLICATIONS

BRIEFS

NEW SHANGHAI PAPER--SHANGHAI JIXIE BAO [SHANGHAI MACHINERY NEWS] was published today. The paper will provide guidance and promote production of quality machinery in the municipal machinery building industry. [Summary] [Shanghai City Service in Mandarin 1100 GMT 7 Nov 86 OW] /6662

NEW SHANGHAI BOOK--"In Defense of Humanitarianism," a collection of theoretical articles and reports by Wang Roushui since the 3d Plenary Session of the 11th CPC Central Committee, has been published by Sanlian Bookstore and will be on sale in Shanghai on 12 November. [Summary] [Shanghai City Service in Mandarin 1100 GMT 11 Nov 86 OW] /6662

JIANGXI REVOLUTIONARY BASE MAGAZINE--The JIANGXI LAOQU JIANSHE ZAZHI [JIANGXI OLD REVOLUTIONARY BASE CONSTRUCTION JOURNAL], which is run by the Jiangxi Provincial Committee for Construction in the Old Revolutionary Bases and by the Jiangxi Provincial Society of Sciences, was first published this month. This is the first of its kind ever published in this country, focusing on the study of construction projects in the old revolutionary bases. Fang Yi, state counselor and member of the CPCCC Political Bureau, wrote the masthead. Vice Chairman of the CPCCC National Committee Wang Enmao, members of the Central Advisory Commission Tan Qilong and Bai Dongcai, and Veteran Comrade Fang Zhichun, wrote inscriptions. Provincial Party Secretary Wan Shaofen wrote the foreword. [Summary] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 20 Nov 86 OW] /6662

SHANGHAI FOREIGN PAPERS--Foreign friends staying at some of Shanghai's hotels will be able to read overseas newspapers of the same date, thanks to prompt delivery service now being offered by the branch company of China National Publications Import and Export Corporation in Shanghai. [Summary] [Shanghai City Service in Mandarin 0100 GMT 12 Nov 86 OW] /6662

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